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PROFESSIONAL NOTES

Excess Profits Tax

The Chancellor of the Exchequer, in his Budget speech, deliberately refrained from disclosing in any detail his proposed amendments in relation to Excess Profits Tax. It will be recalled that when the Finance Bill of last autumn was introduced it was frankly admitted that the clauses dealing with Excess Profits Tax were not necessarily in their final form. During the past seven months a number of proposals have been submitted to the Chancellor for amending the tax, the most comprehensive being the report of the Association of Chambers of Commerce prepared under the chairmanship of Mr. Henry Morgan, F.S.A.A. In his speech on St. George's Day the Chancellor merely indicated that he had considered such amendments as might be necessary to make the tax more workable and equitable between one type of business and another. Special reference was made to the powers to be conferred on the Board of Referees to allow a substituted standard when the figures of past profits would not constitute a reasonable standard. The Chancellor made it clear, however, that this particular provision was only intended to deal with cases of real hardship. It will now be necessary to wait until the draft of the new Finance Bill is available before it can be seen how far the proposals submitted are being adopted by the Chancellor, particularly in relation to parent and subsidiary companies, which are causing the most serious difficulties to practising accountants in compiling their computations.

Other Budget Changes

The Chancellor of the Exchequer foreshadowed legislation to effect minor but important changes in the law, the scope of which was indicated in the resolutions adopted by the Committee at the conclusion of the Budget Speech.

An anomaly in regard to children's allowances is to be corrected. The correction will ensure that where parents are separated, the allowance in respect of any child shall be deducted once only.

The law in regard to Schedule A will be amended to secure the charge of tax on rent not covered by the existing charge. This provision will relate to a house which is unoccupied for the whole or any part of a

year and in certain respects to rents under leases for 50 years or less.

Some amendment is to be made as to the measure of liability to tax in respect of dividends paid without deduction of tax and covered by a recent legal decision. In future the amount received is to be regarded as a net amount and not as a gross amount. The Chancellor no doubt referred to the case of *C.I.R.* v. *Cull* (reported in ACCOUNTANCY, December, 1939, p. 63).

There will also be some change as regards the measure of liability of income from foreign sources (other than earned income) so that all income from possessions out of the United Kingdom shall be taxable under Rule I in the Rules applicable to Case 5. The question of depreciation allowance in respect of leased machinery is to be dealt with.

A provision which will meet with general support will afford complete relief from death duties on the estates of merchant seamen and fishermen killed during the war.

Lord Snowden's provisions in 1930 to prevent the avoidance of estate duty through the medium of private companies have not been wholly effective, and further legislation will be introduced to deal with this and other forms of estate duty avoidance.

It was not unexpected that the level of income at which surtax becomes payable would be reduced. The Chancellor pointed out that the surtax payable on January 1, 1941, is payable in respect of statutory income for the year 1939-40, and its field has already been determined as income in excess of £2,000, but the surtax which will become payable on January 1, 1942, the rate for which will be fixed in the 1941 Finance Bill, will be charged on statutory income for the year 1940-41 in excess of £1,500 per annum instead of in excess of £2,000 as at present.

The issue of bonus shares by companies during the war is to be entirely prohibited. Among the objects of this measure is the desire to increase reserves of companies, which should be attracted to Government loans. A limitation will also be imposed upon dividends paid by companies during the war period. The general position is that a public company shall not distribute a greater dividend on ordinary shares than was distributed in any one of three pre-war years. This again is a measure destined to lead to the augmentation of companies' reserves and their investment in Government securities.

We hope to deal at greater length with these matters in a later issue, when the scope of the proposed legislative changes has been more fully revealed in the Finance Bill and other legislation.

Budget Day in the House of Commons

We had the opportunity of being present in the Strangers' Gallery during the Budget Speech of the Chancellor of the Exchequer. A crowded House of Commons listened intently to the Chancellor's lucid exposition of the most complicated and grim Budget of history. Severe imposts were a foregone conclusion, and a sense of the dramatic was singularly absent except perhaps at the moment when Sir John Simon announced in measured terms that he estimated the national expenditure for 1940-41 at £2,667 million. There seemed to be an understanding reception of the drastic proposals which affect every individual and every class in the country. A remarkable feature of the proceedings was the intermittent mood of gaiety occasioned by witty interjections from each side of the House amid a harrowing financial forecast which the Chancellor relieved by humorous touches. He budgeted for a total revenue of £1,234 million and referred jocularly to the coincidence that Whitehall 1234 is the telephone number of the Treasury. This left a balance of £1,433 million to be raised by borrowing. Yet all this happened in an atmosphere which gave an impression of strength, quiet determination and confidence, which we feel sure will be reflected throughout the country.

The Right Hon. H. A. L. Fisher, O.M., F.R.S.

The widespread regret at the death of the Right Hon. H. A. L. Fisher, Warden of New College, Oxford, will be shared by members of the Society of Incorporated Accountants and particularly by those who attended the short Course held at New College in 1938. The late Mr. Fisher brought rare gifts to all his work, whether as Vice-Chancellor of Sheffield University, as President of the Board of Education, or as the Warden of New College, Oxford. Imagination, scholarship and administrative ability were combined with very likeable qualities which impressed those who met him even for a short time. The personal interest which he showed in the Course given by the Society, his distinguished presence at a dinner in the College and his delightful speech will long be remembered by those who attended the Course.

It is a fortunate circumstance that Mr. Fisher's work, "A History of Europe," was published a few years ago. This product of his refined scholarship found ready acceptance among the reading public, as well as in academic and specialist circles.

Age of Reservation of Accountants

The Editorial article in our April issue contained the decision of the Ministry of Labour to reduce the reserved age of accountants to 25. It is desirable to add that the decision is applicable to men who registered for military service on March 9, 1940, and who on that date were 25 years of age, as well as to those who registered on April 6, 1940, and to others who will register in the future. Those affected who registered on March 9 are advised to call at the local office of the Ministry of Labour at which they registered, to ensure that the individual record is correct. Although it is the practice of the Ministry of Labour to communicate with the employers of

those who register, it will be advisable if each audit assistant affected by the decision will, at the time of registration, present a letter from the firm by whom he is employed, indicating that he is engaged as an audit assistant and that he has served ten years in a practising accountant's office.

It is probably known that the inclusion of an occupation in the Schedule of Reserved Occupations means that men who follow that occupation cannot be accepted for wholetime service in any of the Services of National Defence if they are of or above the age mentioned, but men engaged in professional occupations may be accepted at any age for service in a professional capacity in the Services of National Defence, if any vacancies are available. The subject of deferment of calling-up was also dealt with in the April issue, and it was hoped to publish in this issue information on the question of release from H.M. Forces, which is only possible in rare and exceptional circumstances. The official memorandum on this subject is being revised and it is not possible, therefore, to give the information this month.

Loose-Leaf Minute Books

In 1935, Mr. Justice Bennett gave a decision in the Chancery Division regarding a loose-leaf minute book which was tendered as evidence. Mr. Justice Bennett said that what he had to decide was whether "the thing" was a book within the meaning of Section 120 of the Companies Act, 1929. There was no authority on the question, but he decided that what was tendered was not a book within the meaning of Section 120, and he rejected the evidence. This decision gave rise to some doubt whether, as a general proposition, the use of loose-leaf books for minutes complied with Section 120 of the Companies Act; but it is to be observed that Mr. Justice Bennett's decision related to a particular book in which leaves could be inserted or removed without detection, and references in his decision were not to "books" in the plural.

It is interesting that the Companies Act Amendment Act, 1939, recently passed by the Legislature of South Australia, amends Section 139 of the principal Act (which requires minutes of all general meetings and directors' meetings to be entered in books kept for that purpose) by the addition of the following Sub-Section :—

> Any book kept pursuant to subsection (1) of this section may be either a bound book or a loose-leaf book; but if a loose-leaf book is used, the pages thereof shall be numbered consecutively with numbers printed thereon; and the chairman of the meeting at which any minutes entered therein are signed as correct, and the secretary of the company, or some person acting on his behalf, shall at that meeting sign their names and enter the date of such signature on each page on which any minutes are written.

When the time comes to review the Companies Act, 1929, in this country, it may be that the desirability of eliminating any doubt as to the use of loose-leaf minute books will be considered.

Reading on Active Service

Now that a considerable number of members of the Society and students are on service with H.M. Forces, a question arises as to the effect of absence from their normal professional work and of lack of professional contacts. Books and reading are important factors in the work of students and in the life of more senior members of the profession. The conditions of service obviously do not lend themselves to extensive reading on the part of those with the Forces, but we feel that regular perusal of professional periodicals including ACCOUNTANCY may be practicable and is to be commended. This will enable those concerned to keep in touch with the progress of the profession and changes in its work, especially under present conditions.

Insolvencies in 1938

The annual report of the Board of Trade on the administration of the Bankruptcy and Deeds of Arrangement Acts for 1938 shows that in that year there were 3,105 bankruptcies and 1,663 deeds of arrangement—a total of 4,768 insolvencies, or 15 more than in the previous year. The total liabilities as estimated by the debtors amounted to £10,376,161, and the estimated assets to £3,436,425, showing increases of £1,457,296 and £548,608 respectively. There were 18 fewer bankruptcies than in 1937, but the estimated liabilities and assets showed substantial increases. On the other hand, deeds of arrangement were more numerous by 33, but the amounts involved were smaller. Of the facts reported against bankrupts, the most numerous was that the assets were not equal to 10s. in the £ on the amount of the unsecured liabilities. There were 536 cases of omission to keep proper books of account. With a view to economy some of the usual tables are omitted.

R.A.F. Accountant Officers

Qualified accountants are required by the Royal Air Force, and commissions as accountant officers are being offered for the duration of hostilities. Those who wish to apply for appointment must possess full recognised professional qualifications and must be between the ages of 32 and 50. Applications should be made to the Under Secretary of State, Air Ministry, (S.7. (e) 5), Adastral House, Kingsway, W.C.2. The Schedule of Reserved Occupations does not operate with regard to men who wish to be employed in H.M. Forces in their professional capacity.

Trustees in War-time

[CONTRIBUTED]

In normal times the responsibilities of trusteeship are onerous enough, whilst in times such as the present, the discharge of the duties involved may become extremely difficult, if not impracticable. Can the duties be delegated? This question must have been asked many times recently. Whether as trustees themselves or as advisers of their clients, professional accountants should be conversant with the answer, and accordingly we propose to discuss it at some length and also certain other problems of interest to trustees in war-time.

Delegation of Functions

The rule that trustees who take on themselves the management of property for the benefit of others have no right to shift their duty on other persons has in recent times been somewhat relaxed. For example, the delegation of powers of management by trustees for sale is authorised by Sect. 29, Law of Property Act, 1925, whilst under Sect. 25 of the Trustee Act, 1925, a trustee intending to remain out of the United Kingdom for more than a month may, by power of attorney, delegate to any person (other than his co-trustee, if not a trust corporation) the exercise of the functions of his office during his absence. But it is important to observe that in the latter case the donor of the power of attorney is liable for the acts or defaults of the donee.

Clearly these limited powers of delegation are insufficient in war-time, and consequently the Execution of Trusts (Emergency Provisions) Act, 1939, was enacted.

So far as we are concerned, two cases are provided for, viz. (*a*) Trustees engaged in war service, and (*b*) those who, though not so engaged, are out of the United Kingdom and, by reason of the present war, are unable to return.

" War Service " is defined as :

(*a*) service during the period of the present emergency (whether at home or abroad) in any of His Majesty's naval, military or air forces, or the nursing service or other auxiliary service* of any of those forces ;

(*b*) any other service during that period (home or abroad) in any British ship ;

(*c*) any other work or employment during that period *outside* the United Kingdom in connection with the present war.

Section 1 (1) empowers a trustee, personal representative, tenant for life or statutory owner, subject to the provisions of sub-section (3), to delegate to any person, or to two or more persons jointly, the exercise, during the whole or any part of (*a*) any period during which he is engaged on war service, and (*b*) a period of one month thereafter, of any functions vested in him as such.

Since a personal representative may in normal circumstances, on completion of his administration, assume as regards the estate the functions of a trustee, sub-section (2) enables him, when delegating the exercise of any functions relating to the administration, to delegate to the same person also the exercise of any functions which may in the future devolve on him by reason of his becoming a trustee of the estate, but here also the delegation is subject to sub-section (3).

Sub-section (3) provides that nothing in section 1 is to authorise delegation—

(*a*) to any person who would not as principal be competent to act ;

(*b*) in the case of an implied or constructive trust ;

(*c*) by one of two trustees to the other, unless that other trustee is a trust corporation ;

(*d*) by one of two or more trustees to any person (not being a trust corporation) to whom the exercise of functions has been delegated, whether by virtue of the 1939 Act or otherwise, by the other trustee, or, as the case may be, all the other trustees.

In this sub-section references to a trustee include references to a personal representative. Comparing this particular provision with the Execution of Trusts (War Facilities) Acts, 1914 and 1915, it may be observed that under those Acts a trustee could not appoint his co-trustee (*In re Wells and Hopkinson* (1916), 2 Ch. 289), but an executor or administrator could appoint his co-executor or co-administrator.

In the second case, i.e., where a trustee, personal representative, tenant for life or statutory owner, though not engaged on war service, is out of the United Kingdom and for any reason connected with the present war it is not reasonably practicable for him to return to the United Kingdom, the powers conferred by the Act on trustees, etc., engaged on war service may also be exercised in the same manner and subject to the same conditions.

In either case, any function delegated is to be delegated by power of attorney, which must be deposited in the Central Office of the Supreme Court in accordance with the Supreme Court of Judicature (Consolidation) Act, 1925, whilst if it relates to land,

*The words "auxiliary service" appear to refer to the W.R.N.S., W.A.A.F.S., and A.T.S., and do not include Auxiliary Fire Service and other civilian services

the provisions of Section 125, Law of Property Act, 1925, must be complied with.

Whereas in the case of delegation under the Trustee Act, 1925, the donor of a power of attorney is liable for the acts and defaults of the donee, the 1939 Act puts the donee in the same position as if he were acting in relation to the trust or estate in the same capacity as the donor of the power, and, providing the donor can prove the appointment was made in good faith and without negligence, he will not be liable for the acts and defaults of the donee (Section 2).

Persons dealing with the donee of the power are given protection on certain conditions by Section 3 of the Act, whilst Section 4 provides for the case where a power of attorney has to be given to transfer inscribed stock and enables a donee under the Act to do this.

Notice of the death of the donor of a power of attorney would cancel the protection given to a person dealing with the donee, but a report to the effect that the donor is missing, or is missing and is believed to have been killed, is not to be deemed to be actual notice of his death unless the death has been presumed by a court of competent jurisdiction and the person in question has notice of the order (Section 6).

The "period of the present emergency" commenced with September 1, 1939, and ends on such date as His Majesty by Order in Council may declare (Section 7).

Other Matters arising out of the War

Bearer Securities.—Retention of, or investment in, securities to bearer which, if not so payable, would be authorised investments, is permitted to trustees, unless expressly prohibited by the trust deed (Trustee Act, 1925, Section 7), but, except when held by a trust corporation, they must be deposited for safe custody and collection of income with a bank.

With modern bankers' strong rooms, the risk of damage to bearer securities through aerial attack may possibly be negligible, but as a precaution it is suggested that, where it can be done, the bearer bonds should be exchanged into inscribed or registered stock. If this course is adopted, a mandate authorising payment of the interest to the trustees' bank should be lodged at the same time.

Insurance.—Although a trustee is not bound to insure the trust property against fire, Section 19 of the Trustee Act, 1925, gives him power to do so up to an amount not exceeding three-fourths of the full value of the property and, in the majority of cases, trustees avail themselves of this power. In such cases the question of value should be reviewed, having regard to the present abnormal times. Similarly, if trust funds have been advanced on mortgage, the insurance cover of the mortgaged property should be examined.

War Damage.—Where war damage occurs to settled land or to land held on trust for sale, the making good of the damage may be defrayed out of capital moneys and, notwithstanding the provisions of the trust instrument, the carrying out of such work is to be regarded as an improvement authorised by Part I of the Third Schedule of the Settled Land Act, 1925 (Landlord and Tenant (War Damage) Act, 1939, Section 3), and accordingly the cost may be charged wholly to capital, without requiring recoupment by instalments out of income, as may be done in the case of Part II improvements and must be done in the case of Part III improvements.

Trading with the Enemy.—If any part of a trust estate is payable to a creditor or beneficiary resident in enemy territory, the consent of the Board of Trade must be obtained before payment can be made (Trading with the Enemy Act, 1939, Section 1). So where a German national resident and domiciled in England at the date of his death on February 3, 1940, died intestate, leaving a widow and four children, who were also German nationals, and the widow and two of the children resided in Germany and the other two children (one of whom applied for a grant of administration to himself and to a solicitor) were resident in England, the Court granted letters of administration on the following conditions:

(1) that a return be made to the Custodian of Enemy Property of any part of the estate of the deceased demised to or held for the benefit of the members of his family resident in enemy territory;

(2) that no part of the estate or the proceeds thereof be transmitted to the members of his family resident in enemy territory without the necessary Government authority (*In the Estate of Hans Fischer, deceased* (1940), 56 T.L.R., 560).

These few notes are intended simply as a guide to the emergency and other legislation covering the problems discussed. In practice reference to the precise wording of the relevant statute is the only safe course.

RECENT LEGAL CASES

The following recent legal cases are dealt with in this issue:—

The Budget

The following are extracts from the Financial Statement, 1940-41, published by His Majesty's Stationery Office.

Revenue and Expenditure, 1939-40

Ordinary Revenue	£1,049 million
Ordinary Expenditure	£1,318 million

National Debt, March 31, 1940

Internal Debt	£7,899 million
External Debt arising out of war 1914-18 (Foreign currency at par of exchange) ...	£1,032 million
Net Total of the National Debt on March 31, 1940	£8,931 million

CHANGES OF TAXATION IN 1940-41

Inland Revenue

INCOME TAX

It is proposed to raise the standard rate of tax by 6d. to 7s. 6d. in the £.

The following changes come into force for 1940-41 under the provisions of section 9 of the Finance (No. 2) Act, 1939, viz. :

The reduced rate of tax is raised from one-third of the standard rate to one-half of that rate, but the zone in which this reduced rate applies is extended from the first £135 of the taxable income to the first £165.

The exemption limit is reduced from £125 to £120.

The allowance in respect of earned income is reduced from one-fifth to one-sixth of such income with a maximum allowance of £250.

The personal allowance to married taxpayers is reduced from £180 to £170.

The allowance for children is reduced from £60 to £50 for each child.

It is proposed to reduce the figure in excess of which the total income of an individual becomes liable to Sur-tax from £2,000 to £1,500.*

It is proposed to amend the law so as to bring into charge payments of rent so far as these are not covered by assessment under Schedule A.

It is proposed to amend the law relating to the liability of income from sources outside the United Kingdom.

It is proposed to amend the law relating to the allowanoe for children so as to prevent more than one allowance being given for the same year in respect of the same child.

It is proposed to continue for 1940-41 the relief under section 11 of the Finance (No. 2) Act, 1939, in cases of diminution of earned incomes of individuals owing to circumstances connected with the war.

It is proposed to amend the law in connection with various other matters (*e.g.*, grossing-up of dividends, wear and tear allowance to lessees of plant and machinery).

ESTATE DUTY

It is proposed to amend the law in various respects in order to safeguard the Revenue against loss by avoidance.

EXCESS PROFITS TAX

It is proposed to amend in various respects the provisions of Part III of the Finance (No. 2) Act, 1939.

Customs and Excise

Immediate increases are proposed in the duties on spirits, beer, tobacco, snuff, matches, and mechanical lighters.

Purchase Tax.—It is proposed to introduce a tax to be levied on the purchase of certain commodities from registered dealers (generally wholesalers) by unregistered persons (generally retailers). The rate of tax and date of operation will be specified by Treasury Order, which will not have effect unless approved by the House of Commons.

Motor Vehicle Duties

It is proposed that members of H.M. Forces who are home on leave from service overseas or afloat may be exempt from motor licence duty on their own cars or motor cycles for a short period on payment of a fee of 10s. in the case of a motor car, and 2s. in the case of a motor cycle.

CHANGES IN POST OFFICE CHARGES

A.—POSTAGE

The following changes take effect on May 1, 1940, except that in the rate for newspapers, which will involve legislation :

(1) *Inland Post*

Description of Postal Packet.	Proposed Charges.	
Letter	2 oz. (or less)	2½d.
	For every additional 2 oz. or part thereof ...	½d.
Postcard	Each single	2d.
	Each reply	4d.
Printed Packet	2 oz. (or less)	1d.
	For every additional 2 oz. or part thereof ...	½d.
Newspaper (registered at the General Post Office)	Not exceeding 4 oz. (per copy)	1½d.
	For every additional 4 oz. or part thereof (per copy)	½d.
Sample Packet	4 oz. (or less)	1½d.
	For every additional 2 oz. or part thereof ...	½d.
	Maximum 8 oz.	

(2) *Imperial Post*

Description of Postal Packet.	Proposed Charges.	
Letter	1 oz. (or less)	2½d.
	For every additional 1 oz. or part thereof ...	1d.
Postcard	Each single	2d.
	Each reply	4d.

The existing charges will continue to apply to correspondence for members of H.M. Forces and Ships abroad.

(3) *Foreign Post*

Description of Postal Packet.	Proposed Charges.	
Letter	1 oz. (or less)	3d.
	For every additional 1 oz. or part thereof ...	1½d.
Postcard	Each single	2d.
	Each reply	4d.

B.—POSTAL ORDERS

Existing Poundage.		Proposed Poundage.	
On orders 6d. to 2s. 6d.	1d.	On orders 6d. and 1s.	1d.
On orders 3s. to 15s....	1½d.	On orders 1s. 6d. to 5s.	1½d.
On orders 16s. to 21s.	2d.	On orders 6s. to 21s....	2d.

Increases are also proposed in the charges for telephone and telegraph services.

*This change will be effective for Sur-tax for 1940-41, which will beoome payable on 1st January, 1942.

ESTIMATED EFFECT OF INCREASES OF TAXATION AND POSTAL ETC., CHARGES

	Estimate 1940-41.	Estimate in a Full Year.
INLAND REVENUE—	£	£
Income Tax—Increase of 6d. in the standard rate	+ 28,000,000	+ 32,000,000
Increase in reduced rate to one-half of the standard rate and lowering of exemption limit ...	+ 7,000,000	+ 14,000,000
Reduction in the allowance for Earned Income	+ 3,500,000	+ 7,000,000
Reduction in the allowances to Married Taxpayers and for Children	+ 3,500,000	+ 7,000,000
Rents not covered by Schedule A	+ 200,000	+ 500,000
Income from sources outside the United Kingdom	+ 200,000	+ 500,000
Restriction as regards Child Allowance ...	+ 100,000	+ 250,000
	+ 42,500,000	+ 61,250,000

	Estimate 1940-41.	Estimate in a Full Year.
Estate Duty—		
Provisions against avoidance	+ 100,000	+ 500,000
TOTAL INLAND REVENUE ...	+ 42,600,000	+ 61,750,000
CUSTOMS AND EXCISE—†		
Customs	+ 23,950,000	+ 26,300,000
Excise	+ 22,150,000	+ 25,700,000
TOTAL CUSTOMS AND EXCISE	+ 46,100,000	+ 52,000,000
POST OFFICE—	+ 12,663,000	+ 14,500,000
MOTOR VEHICLE DUTIES—		
Permits for members of H.M. Forces on leave	Negligible.	
TOTAL	+101,363,000	+128,250,000

† Excluding Purchase Tax.

I.—ORDINARY REVENUE AND EXPENDITURE, 1940-41

ESTIMATED REVENUE.	£	£
Inland Revenue—		
Income Tax	450,500,000	
Sur-tax	75,000,000	
Estate Duties ...	85,100,000	
Stamps	19,000,000	
National Defence Contribution ... / Excess Profits Tax ...	70,000,000	
Other Inland Revenue Duties	1,000,000	
Total Inland Revenue		700,600,000
Customs and Excise—		
Customs	302,050,000	
Excise	164,050,000	
Total Customs and Excise		466,100,000
Motor Vehicle Duties		35,000,000
TOTAL RECEIPTS FROM TAXES		1,201,700,000
Post Office net receipt		13,291,000
Crown Lands		1,150,000
Receipts from Sundry Loans		5,000,000
Miscellaneous		13,250,000
TOTAL REVENUE		1,234,391,000
EXCESS OF EXPENDITURE OVER REVENUE		1,432,399,000
		2,666,790,000

ESTIMATED EXPENDITURE.	£	£	£
Interest and Management of National Debt			230,000,000
Payments to Northern Ireland Exchequer (including net share of reserved taxes)			9,400,000
Miscellaneous Consolidated Fund Services			7,600,000
Total			247,000,000
Supply Services—			
Defence—			
Token Votes		4,000*	
Civil—			
I. Central Government and Finance ...	3,591,000		
II. Foreign and Imperial	14,185,000		
III. Home Department, Law and Justice ...	19,543,000		
IV. Education	63,396,000		
V. Health, Labour, Insurance (including Old Age and Widows Pensions)	166,892,000		
VI. Trade, Industry and Transport	29,614,000		
VII. Works, Stationery, etc.	12,896,000		
VIII. War Pensions, 1914-18, and Civil Pensions ...	41,574,000		
IX. Exchequer Contributions to Local Revenues...	53,175,000		
Unclassified Services...	1,000*		
		404,867,000	
Votes of Credit		2,000,000,000	
Tax Collection—			
Customs and Excise and Inland Revenue Votes (including Pensions, £1,317,000)		14,919,000	
			2,419,790,000
TOTAL EXPENDITURE			2,666,790,000

* Substantive cost in 1940 to be met from Votes of Credit.

II.—SELF-BALANCING REVENUE AND EXPENDITURE

	£
Revenue required to meet Post Office expenditure * (£81,722,000, including Pensions £5,674,000) and Vote for Broadcasting under Class IV of the Civil Estimates (£4,500,000)	£86,222,000

* Excluding £4,450,000 estimated to be required from Votes of Credit

Uniform Costing Systems—I

By RONALD S. EDWARDS, Lecturer in Business Administration (with special reference to Accounting), London School of Economics

There are many reasons for supposing that the activities of Trade Associations will become more rather than less significant during and after the war. It is proper, therefore, that accountants should give serious attention to those branches of trade association work which depend to a high degree on accounting skill. The most important of these is the attempt to promote uniform costing methods. There are, in this country, a number of industries for which uniform costing systems have been designed, though in some cases the recommended methods have not been widely adopted. Certainly nothing like the United States experiments have been attempted here and it would be well, therefore, to examine carefully the mass of material which is available in the American literature. Even prior to 1933 many American industries had developed uniform cost-accounting systems, but the National Industrial Recovery Act and the Robinson Patman Act gave a much wider significance to trade association activity in this direction. In 1937 the National Association of Cost Accountants possessed 300 manuals describing uniform costing systems for different trades, and even this is not a complete set. Apart from these manuals there is a growing literature examining critically the aims which uniformity in costing is designed to serve and the practical difficulties which were experienced in attempting to achieve these objects. It would be of undoubted value if those responsible for our accounting libraries in this country would make a systematic collection of this literature, a large part of which, *i.e.*, the manuals, could probably be obtained for nothing from the associations concerned.

In this article, however, we shall not discuss the American experiments in cost control, nor shall we consider the coercive procedure which may be possible where some members of an industry have managed to persuade the Government that statutory restrictions should be imposed on entry to, or on price and output policies within, that industry. It may well be that sectional restrictionism with statutory backing is the major economic issue to be faced by this country, but we shall here confine ourselves to a study of practices which are *voluntarily* accepted by the firms concerned.

Where there are only a few firms in an industry and the products are more or less standardised the constituent firms can often bring about monopolistic conditions for considerable periods by direct agreement on prices. If the products of the various firms are not standardised then centralised price fixing as ordinarily understood is impossible, but the same end may be served if each firm agrees to calculate its prices according to a common set of rules. Suppose all firms enter into an undertaking to organise their costing system on precisely the same lines and to charge prices which bear a given relationship to costs so calculated; then so long as the agreement is carried out, and so long as new firms are not attracted to the industry, competitive bidding for work may be largely prevented. Such arrangements need not lack flexibility, for the relationship which prices bear to the arbitrary cost calculations can be altered from time to time in the light of trade conditions in a constant attempt to maximise the total gains of the member firms. Though there is a possibility that particular arbitrary cost calculations demanded by the agreement may favour one firm rather than another, the arrangement will be stable so long as every firm believes itself to be better off under the arrangement than it would be if it broke away. Moreover, it is quite possible to make adjustments by a system of contributions from more favoured to less favoured firms by means of a central "pool." In such arrangements as this we see one of the principal arguments—from the public's point of view—in favour of detailed disclosure of accounting data. The safety valves of competition and public opinion can only work satisfactorily on the basis of adequate information.

What is the position in those industries which, besides having no standardised product, are composed of a large number of separate businesses, some big, others small, some specialising and others taking any work which comes their way? Printing is a good example of such an industry and we shall adopt it for the purpose of illustrating this discussion of uniform costing systems. In tendering for business a printer will presumably be guided by the following principles: (*a*) he will avoid taking on work that will increase the total costs of his business by more than it adds to the total revenue, *i.e.*, he will refuse business that does not cover *avoidable* costs except when there are special reasons (*e.g.*, goodwill creation) for accepting it; (*b*) he will try to avoid taking on Job A, though it will more than cover avoidable costs, if, through accepting it, he may have to turn down a more profitable Job B because the equipment and staff are already employed on Job A; (*c*) he will try to avoid quoting prices in excess of his competitors for business complying with (*a*) and (*b*).

There is no doubt that a costing system besides promoting efficiency can help firms to avoid taking work which does not cover avoidable cost. It can help in setting a minimum to price but it cannot help the printer in guessing the maximum a customer will pay, in guessing what his competitors' bids will be and in guessing the chances of better propositions coming forward in the near future. Therefore, if one wanted to assist a firm uninstructed in price policy one would help it to build a system of cost records which would enable it to estimate avoidable costs, explaining that avoidable costs depend on the decision to be made and the surrounding circumstances which vary from day to day. One would then emphasise that this figure (or range of possible figures—according to assumptions) is a ***minimum*** only and that the most profitable price can only be guessed after weighing up a number of other factors which have nothing to do with costs.

The Federation of Master Printers publishes a costing system; a system which in principle remains the same as that which was adopted by the First British Cost Congress in 1913. The Federation endeavours to persuade its members to use the cost methods described and it has a highly skilled costing staff whose services are available to members who wish for assistance in setting up the system or who need advice on costing problems. If it is agreed that an adequate system of cost control assists the satisfactory conduct of business, it may be asked why "efficient" member firms should be willing to pay subscriptions which are partly used for persuading "inefficient" firms, who are their competitors, to mend their ways. It might be asked why large firms who can pay for their own skilled cost accountants should help to provide similar facilities for those smaller firms who cannot see the advantage of a costing system without persuasion. The answer would probably be that "efficient" firms consider that they lose more as a result of uninformed price competition from "inefficient" firms than they gain from any comparative advantage in efficiency due to cost control. The view is held that if firms know their costs they will charge more for their products rather than less; that ignorance results in under-estimates of cost rather than over-estimates. A study of the conditions in which uniform costing systems have been introduced and the injunctions which they contain leads one to the conclusion that such beliefs as these have played an important part in the development of this type of Trade Association activity. For example, uniform costing systems usually emphasise that depreciation should be treated as a cost, that the proprietor's own time should not be forgotten, that there is interest on the value of the business to be considered, that rent should not be omitted from calculations merely because the works is owned by the proprietor of the business. Yet it should not be imagined that all those who have urged uniform costing methods have done so with the deliberate intention of gaining advantages for themselves at the expense of those whom they can persuade to alter their methods. It is argued that if, by bidding higher prices based on a "costing system," firms should lose some business to their competitors they will nevertheless make more profit on the business that they do manage to retain, and that if *everybody* adopts this attitude everybody will be better off. Thus the ideas which underlie the small closely knit price-ring with non-standardised products are carried over to industries in which the number of firms is large, and in which it is easy to start a new business with quite a small amount of capital. Evidence is found for this in earlier editions of the text-book published by the Federation of Master Printers. The Committee appointed in 1911 from which the Cost Finding System sprang was formed to consider the question of "Increased cost of production and the consequent necessity of Increasing Charges." When the ninth edition was published in 1931 it was urged—

> "most strongly that every printer should install the Federation Costing System in his works. When he does so he will be able to find his own costs of production and so charge a reasonable price for his work, and know when and where he is making a profit or a loss."

Later in the text it was stated that—

> "It cannot be too strongly impressed on the printer that he should use for both estimating and costing purposes the hourly rates found to be correct. . . . If he uses lower rates, he is deceiving himself and may be making losses on orders which appear to show a profit."

Where there are several thousand firms in an industry, even if all of them should accept the "system" as a basis for ***pricing***, it would be a difficult matter to see that they abided by its terms. If they did, and the result was to maintain a lucrative level of earnings in the industry, fresh competitors would be attracted, the result of which would be to lower prices or to increase unused capacity. In an industry where many firms do not belong to the Federation and where the "costing system" is not accepted by a substantial number of Federation members, those who agreed to fix their prices rigidly on the basis of arbitrary cost allocations would become an easy target for other firms who would be able to underbid them with impunity. As we shall see from the second of these two articles, the Master Printers' Federation costing staff is to-day fully alive to this problem and insists that those who use the Federation costing system are perfectly free to quote and charge whatever prices they like.

(To be continued)

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The Second War Budget

Insofar as Sir John Simon has turned in his second war Budget to the accustomed sources of revenue, there will be few who will complain of injustice or inexpediency. The increase in income tax is no more than had been announced seven months ago; the reduction in the sur-tax level was generally expected; in these anxious times the enlarged duties on beer, spirits, tobacco and matches involve no undue hardship; the increased postal charges will bring in welcome revenue in far greater proportion than the sacrifices they will involve. The Chancellor may depend upon it that the public will show the same readiness in paying the extra £100 million odd estimated to be produced by these increases in taxation as they showed in paying the £995 million raised in total taxation last year.

But even £100 million, however large it may appear by ordinary standards, is not a great figure judged by the extraordinary standards of war. Together with other additional revenue on taxes at existing rates (including £70 million estimated from the Excess Profits Tax and the National Defence Contribution) the extra £100 million will go to compose a total of £1,234 million of taxation, the largest total in British history. The present increases in taxes thus account for only 8 per cent. of the new total. This, in war-time, is certainly not excessive. Indeed, despite the possibilities inherent in a novel measure proposed by the Chancellor, which he has not taken into account in his revenue estimates, the criticism that taxation is insufficiently drastic carries a great deal of weight.

The novelty is the proposed purchase tax. At present this proposal is shrouded in mystery. It may be little more than an awkward departure in our fiscal methods, producing an inconsiderable return for heavy costs in administration. At the other extreme, it may be a truly significant contribution to our war effort, productive of a large yield and carrying important indirect advantages. Everything depends upon the form of the tax, the speed with which it can be brought into operation and the rate of charge. These factors are at present unknowns. The Chancellor has said that food, drink, articles already heavily taxed (for example, petrol), services, fuel, gas, electricity and water, are not to attract the tax. He has said also that the tax will be levied on wholesalers (who are all to be registered) when goods are passed on to the retailers, so that exports and the materials of industry, including semi-finished products, will be unaffected. The further information has been vouchsafed that the tax will be at a flat rate, not differentiated according to the commodity concerned.

Unassisted by the Chancellor, we may estimate annual retail sales of the commodities not specifically excluded from the tax at about £1,000 million a year. Probably the wholesale value of these goods is roughly two-thirds of the retail value. Thus, if the tax were 5 per cent. it would yield hardly more than £35 million; it would hardly justify itself at this level. If the tax were 25 per cent. its contribution would be a really significant one—something in the region of £170 million. But the burden upon the consumer would then be heavy indeed. Nevertheless, a first consideration of this undefined measure (which will doubtless involve the accountancy profession in fresh duties) suggests that its potentialities are really important. To its direct yield must be added the indirect advantage that consumption would fall off drastically if the tax were a steep one, thus releasing monetary and physical resources for war purposes. If the principle of the flat rate were foregone, as appears desirable despite administrative difficulties, luxuries and semi-luxuries could be more heavily burdened than more necessary commodities.

Omitting any yield from the purchase tax, the excess of estimated expenditure over estimated taxation revenue is no less than £1,433 million. Whatever the excess proves to be, it will have to be met out of loans. Can an amount of these vast dimensions be borrowed at no more than 3 per cent., the limit which the Chancellor has set himself, without incurring inflation? That is the crucial question of 1940-41. Will the utmost ingenuity in devising loans of different maturities, to suit different individuals and institutions, produce this great flow of money to the Exchequer without such a creation of bank credit that the vicious spiral of rising prices and incomes is set in motion? The Chancellor is convinced that voluntary savings can do this and he rejects the Keynes plan for compulsory savings, which, as he rightly senses, is regarded as one of the last resorts by the majority of people in this country. But he stresses the overriding need for positive steps on the part of the public at large towards the strictest economy in private consumption so that the amount lent to the State may be as large as possible. His new tax will help to this end. So will the limit he has set to the dividends of public companies and his prohibition of bonus share issues. But there is no hiding the fact that savings in the future will need to exceed by a large margin the present volume, if the Chancellor's confidence is to prove justified. Moreover, it is necessary to emphasise that while of our total Budget of £2,667 million in the present fiscal year we are spending £2,000 million on the war, the Germans are spending on war purposes alone something more than £3,200 million. The war expenditure of France at about £1,000 millon must be taken into account in total comparative figures, but even so a rapid stepping-up of our war expenditure is essential. It is evident enough that the Chancellor's present plans only take account of a part of the burden and that the additional strain which will before very long be placed upon the system of voluntary savings will be enormous indeed.

TAXATION

Excess Profits Tax—V

This is the fifth of a series of articles on practical points arising out of the Excess Profits Tax.

Minimum Standard

It is rather widely assumed that the minimum standard of £1,000, or the increased minimum standard of £750 per working proprietor up to £3,000 will be elected in every case where the standard profit computed on the normal basis is less than the minimum. This is not necessarily the case, however, where the business is that of a director-controlled company. In such a case regard must be had to Rule 10 (1) (*b*) of the Seventh Schedule, Finance (No. 2) Act, 1939, which provides that no deduction shall be allowed in respect of directors' remuneration if the standard profits are *not* computed by reference to the profits of a standard period, *e.g.* where the minimum standard is elected. This exclusion of remuneration is not limited to working proprietors but applied to *all* directors, other than whole-time service directors.

Thus, if the standard profit of a director-controlled company amounts to £300 after deduction of £500 remuneration for a "working proprietor" director, and £250 for another director working part time only, whilst the profit in a chargeable accounting period of one year is £800 after deduction of £750 for remuneration of the same directors, the comparative liabilities would be :—

Normal Basis		*Minimum Basis*	
Profit	£800	Profit	£800
Less Standard	300	*Add* Remuneration	750
Excess Profit	£500		1,550
(Capital variation adjustment ignored)		*Less* Minimum Standard ...	1,000
		Excess Profit ...	£550

There is thus a smaller liability on the normal basis. But the minimum standard would be preferable if *both* directors were working proprietors in the chargeable accounting period, since the minimum of £1,500 then applicable would leave an excess profit of £50 only.

Computation of Capital

Any moneys not required for the purposes of the business are to be left out of account in computing capital. It will therefore be necessary to determine the date as from which they are not so required, and regard them as capital withdrawn on that date. Conversely, if such moneys are subsequently used to acquire assets for use in the business, they must be regarded as fresh capital introduced and adjusted accordingly. Similarly, where investments are left out of the capital in the year in which they are bought, they should be regarded as withdrawn on the date of purchase, as the cash was withdrawn on that date. And on their sale, the proceeds are capital introduced.

Where an asset is sold at a profit, the amount of the profit is capital introduced on the date of realisation. Similarly, a loss is capital withdrawn. Care is necessary in the ascertainment of the profit or loss, particularly where the capital computations are based on the balance-sheet figures at the beginning of the standard period. The cost price of the asset must be found in accordance with the rules laid down in the Act, any wear and tear allowances, or allowances for depreciation of factory, etc. (as the case may be), allowed for income tax or E.P.T. purposes must be deducted and the result compared with the sale price. This is particularly important where assets have been revalued at some time, e.g., on a reduction of capital or refinancing. If an obsolescence allowance is made, of course, there is no withdrawal of capital, as the asset is replaced.

Although profits for E.P.T. purposes may be inflated by the disallowance of directors' remuneration in excess of that paid in the standard period, such amount is not capital employed in the business, and for the purposes of the capital computation it must be deducted from the profits in the same way as subscriptions, etc., already mentioned in the previous article.

Although strictly, for the capital computation, it is legally necessary to value stock and work-in-progress at cost, it is evident, in practice, that they must be brought in at the same figure as that at which they appear in the profit and loss account. Here again it would be better if the Act were amended to make this clear. Stock is not likely to be overlooked, as it will already be in the balance sheet at the correct figure—that is, as per profit and loss account. The profit or loss on continuing contracts, where this has to be taken into account in adjusting the profits for E.P.T., will be adjusted automatically by bringing in the profits, however, and cost price only, excluding such profit or loss, should appear in the capital computation.

Director-Controlled Companies

A reader has asked us to discuss the position where there were three directors who were the sole shareholders of the company in the standard year, taking salaries of £1,400 each, a total of £4,200. In the chargeable accounting period there were only two directors, who took salaries of £1,400

each, but they were voted £800 each for directors' fees, making a total charged in the accounting year of £4,400. The reader asks whether the death of one of the directors, which occurred prior to the accounting year, affects the position as regards the amount of remuneration allowable in the accounting period.

Reference to the Act shows that the limitation is on directors' remuneration. There is no need to show that the directors were the same persons, nor would such a limitation be justified. Since the fees paid to directors totalled £4,200 in the standard year, this is the maximum amount which can be charged for directors in the chargeable accounting period and, therefore, only £200 falls to be disallowed. The above remarks are on the basis of a chargeable accounting period of a full twelve months.

The same reader also puts forward the case where in the standard year there were three directors, two of whom each hold 10 per cent. of the issued capital and also, as executors under the will of a deceased director, hold 80 per cent. of the issued capital. Upon the death of the life tenant one of the existing directors will become beneficial owner of approximately one-half of the deceased director's holding, and the other director's wife will become the beneficial owner of the other half of the deceased director's holding. He would like to know whether the controlling of the deceased director's shares by the two existing directors enables the company to be regarded as a director-controlled company.

The Act does not define what constitutes " control by the directors," and it is therefore a question of fact whether the directors can outweigh the other shareholders in a general meeting. In our opinion, since the executors control the whole of the share capital in the standard year, it is a director-controlled company, and on the death of the life tenant the directors will hold 60 per cent. of the share capital, so that it will remain a director-controlled company. The wife's holding will be ignored as it could not be contended in modern times that a director controlled his wife.

TAXATION NOTES

Payments to Employees

In view of Section 19, Finance Act, 1939, it is increasingly important to see that " casual " payments to employees are included in the Return of Employees, for example, insurance companies are required to return payments in excess of £25 per annum in respect of commissions to agents and " piece-work " payments to clerks for policy writing, etc., in their spare time. The recipients should include all such sums in their returns. It is likely that many payments of this nature will now be taxed for the first time, whereas, either from ignorance or intention, such payments were often not returned in the past. In the case of " own premium " commissions, it is a common practice to restrict the life assurance allowance to tax on the net premium paid, a practice that appears to be legally justifiable, but where the gross premium is allowed, the commission should be returned for assessment. Many arguments will arise in respect of expense claims under Schedule E.

The growing practice of adding 10 per cent. to hotel bills is also likely to cause " tips " to be assessed on a more adequate basis than in the past.

Beneficial Occupation

In completing a landlord's Return of Income, care must be taken to include only the net annual value or the rent receivable, whichever is the lower figure. And where premises are empty, whether or not rent is still being received, a " void " claim can be made to discharge the assessment for the portion of the year during which the property is empty. This is inequitable where rent is still being received, and is not unlikely to form the subject matter of a clause in the Finance Bill, in view of its current importance.*

Interest on Death Duties

The allowance, in computing total income for surtax purposes, of the gross equivalent of interest paid on death duties becomes increasingly important, as the gross equivalent of 3 per cent. with tax at 7s. is $4\frac{6}{13}$ per cent., and with tax at 7s. 6d. is $4\frac{4}{5}$ per cent.

Death Duties on Timber

Much timber is being cut for use in the national effort, giving prominence to the special rules for charging death duties on such property.

The land on which timber or underwood is growing must be valued for estate duty purposes, exclusive of the value of the timber or underwood. Estate duty is payable thereon in the usual way. Although the value of timber should, for convenience, be agreed, no estate duty is payable thereon, nor is it aggregated for the purpose of determining the rate of duty.

When timber is felled or cut, however, estate duty is payable on the net proceeds (after deducting necessary outgoings since the last death), at the rate applicable to the land on the last death on which the land passed. The duty payable is limited, however, to duty on the value of the whole of the timber on the last death. Where marginal relief applied on the death, the higher rate is charged on the proceeds of timber. If the timber is sold standing (either with or apart from the land), the estate duty is payable on the value of the timber at the last death (without any deduction for outgoings), but any duty already paid on timber felled or cut is deducted from the duty payable. Where a portion only of timber is sold standing, duty is payable on the proportionate value at the last death, and no deduction is made for duty already paid, subject to the limitation that the total duty must not exceed duty on the total value at the death. Interest runs from the date of receipt of the proceeds of sale. No duty is

* Since this note was written, the Budget speech and consequent Resolutions show that the legislation here foreshadowed is to be included in the Finance Bill.

payable on timber used on the estate, or on underwood (even if sold).

If desired, however, the death duties may be commuted by a lump sum payment on the value agreed as at the date of death, although there is no statutory provision to that effect.

It should be noted that the duties apply only to timber on the land at the date of death, not to new areas planted or to areas replanted after felling the mature crop.

Necessary outgoings deductible from the proceeds of sale include :—

(*a*) Expenses of the sale ;
(*b*) Expenses of felling and drawing out the timber, and of restoring the fences, ditches, roads and gates damaged in the process, so far as these expenses are borne by the vendor ;
(*c*) Expenses of replanting ground on which timber has been felled or thinned ; and
(*d*) Expenses of management so far as intrinsically necessary.

The practice is to render accounts of felled timber yearly, showing gross receipts month by month, and outgoings for the year and for past years since the death, in respect of the timber included in the account. Outgoings are set first against the earliest receipts, and interest is calculated on receipts not offset by outgoings from the end of the month to which they pertain. If the outgoings exceed the receipts, the balance is carried forward.

Succession duty is payable in a similar manner to estate duty, being levied on the same value, reduced by the estate duty and costs of settling it, unless the duty is payable from some other source. If, of course, the successor is entitled only to income, the duty is assessed according to the usual tables.

Having regard to necessary outgoings already incurred, it may be a matter of some financial importance whether to sell the timber standing, and leave the purchaser to fell and cart it, etc., or to undertake the felling, etc., and careful calculations should be made as to which method to adopt.

Recent Tax Cases

By W. B. COWCHER, O.B.E., B.Litt., Barrister-at-Law

Income Tax—Schedule D—Whether successor is entitled to carry-forward of wear and tear allowance and losses of predecessor—Income Tax Act, 1918, *Schedule D, Cases I and II, Rules* 6 *and* 11*—Finance Act,* 1926, *Sections* 32 *and* 33*—Companies Act,* 1929, *Sections* 153 *and* 154.

The case of *United Steel Companies* v. *Cullington* (House of Lords, March 19, 1940, T.R. 195) was noted in our issues of December, 1938, and April, 1939. The House of Lords unanimously affirmed the decision of the Court of Appeal in favour of the Crown upon all the points at issue and, generally, agreed with the judgment of Finlay, L.J. The judgments of the individual law lords in what is a very important case contain some notable *dicta*.

The Lord Chancellor thought that the provisions in the new Rule 11, whereby the successor was to be treated as if he had set up or commenced a new trade, were conclusive in favour of the Crown. The words of the new Rule were imperative and clear and to be given their natural meaning. Turning to the argument, based upon Section 154 of the Companies Act, 1929, that the order of Mr. Justice Eve whereby the undertakings of the two old companies had been transferred to the appellant company had the effect of transferring the rights in question to the latter, he found it to be an impossible construction both of Section 154 and of Mr. Justice Eve's order.

Lord Maugham, after dismissing the argument based upon the Companies Act, 1929, in two sentences, held that the right to the wear-and-tear allowance carry-forward was not a *chose-in-action* or an asset of the taxpayer, and that it could not be assigned to the appellants. If the trader goes out of business the right is lost unless there is a statutory right given to someone else. The plant and machinery might have been scrapped or acquired by the successor for a very small sum. The new Rule 11, introduced by Section 32 of Finance Act, 1926, must now be regarded as Rule 11 of the Rules applicable to Cases I and II of Schedule D. He held—but the *dictum* is clearly *obiter*—that in the case of a partnership choosing the new business basis " the new partners," clearly meaning by this term the partners in the new firm, lost the benefit of allowances or deductions available prior to the change. There was no possibility of reading into the new rule " the remarkable privilege contended for," the deduction for diminished value of plant and machinery which the successor had, perhaps, never acquired.

Lord Russell of Killowen said that Rule 11 (2) postulated that the tax payable by the new owner should be computed as if it were " a brand new business." The fallacy of the judgment of Lawrence, J., was based on the fact that the new Rule 11 (2) did not describe the trade of the new owner as a " new trade." But where there was a complete break there was no need for such a description. As to the claim based on Section 154 of the Companies Act, 1929, what the transferor companies could not themselves transfer to the appellant company could not be transferred to the latter by order of the Court.

Lord Wright said that Mr. Justice Eve's order could not transfer the right in question because the old companies never had any right to them. He questioned whether the claim to allowance under

Rule 6 could properly be described as a " property, right, or power." All that the old companies had was a claim to allowances from their own profits in respect of wear and tear or losses. " It would have been a strange result if the Companies Act, 1929, had by a side wind amended in a substantial particular the Finance Act, 1926. To effect such an amendment express and apposite words would have been necessary." Lord Romer's concurring judgment presents no special features.

The case for allowance in respect of losses under Section 33 of Finance Act, 1926, did not receive much attention in the judgments owing to the fact that—to use the words of the Lord Chancellor—" it is now admitted that the relief which Section 33 gives is purely personal to the person sustaining the loss," the consequence being that the appellants had to rely for this relief solely upon Mr. Justice Eve and Section 154 of the Companies Act, 1929.

The judgment by the same members of the Court of Appeal in *Donoghue* v. *Doncaster Amalgamated Collieries, Ltd.* ((1939) 2 K.B. 578), to the effect that the powers of Section 154 of the Companies Act, 1929, extended to dealing with a purely personal right, a contract of employment, had been relied on for the appellant company. Only Lords Russell and Wright mentioned that case in their judgments. But both cast doubts upon its validity, a fact of very considerable importance to many persons, including those engaged in company amalgamation schemes. The view may be expressed that whilst the decision in question has much to be said for it as a matter of practical convenience, it is hard to reconcile it with established legal principle; and it will obviously be necessary to take a case to the House of Lords to settle the doubts raised.

Income Tax—Schedule D—Carry-forward of loss—Meaning of " six following years of assessment "—Finance Act, 1926, Section 33.

Harling v. *Celynen Collieries Workmen's Institute* (K.B.D., March 20, 1940, T.R. 203) involved an issue which has been the subject of argument ever since Section 33 of the Finance Act, 1926, became part of our Income Tax system. The respondents carry on the business of a cinema and dance hall. During the year 1930 they sustained a loss of £1,639, of which £426 had not been allowed under Section 33 or any other relief section. They claimed they were entitled to deduct the amount from the assessable profit for the year 1937-38 and that the six years did not begin to run in 1931-32 as there was and could be no assessment for that year. Lawrence, J., upheld the decision of the General Commissioners in the respondents' favour.

Under the Section the loss in respect of which relief has not been given may be carried forward and " as far as may be " deducted from the profits and gains assessed under Schedule D for the " six following years of assessment." The Revenue contention, challenged but hitherto not taken to the Courts, was that the first of the six years was the year of assessment following that in which the loss was sustained. Lawrence, J., held that it cannot be fairly said that a loss may be carried forward and deducted in a year in which it can neither be deducted nor have any effect. The words " as far as may be " are intelligible in regard to after years because there might not be profits from which to deduct the loss; but in the year in which the loss itself is the basis of assessment there cannot be any profits to deduct from and to use the words " as far as may be " in relation to that year seemed ironical and unnatural.

In view of the general importance of the case, it may be carried further, unless the Revenue authorities are prepared to accept the decision as equitable. There is another way of putting the case for the taxpayer—to the effect that the " six following years of assessment " do not apply to taxpayers in general but to the person who has sustained the loss. For him, a year in which there cannot possibly be any assessment is not a " year of assessment." This amounts, in effect, to the same thing.

Income Tax—Schedule E—Payment by company to director in consideration of his refraining from resigning—Income Tax Act, 1918, Schedule E, Rule 1.

In *Prendergast* v. *Cameron* (House of Lords, March 12, 1940, T.R. 163) the majority decision of the Court of Appeal (see our April, 1939, issue) was unanimously affirmed by the House of Lords. The case, it will be remembered, was where a director who wished to resign was paid a sum of £45,000 to refrain from giving notice; and, on the same day as this payment was authorised, a resolution was passed that he should remain a director in an advisory capacity at remuneration of £400 per annum. The Special Commissioners had found that the lump sum was in consideration of his not serving his proposed notice and did not arise from his employment, a view which was supported by the Master of the Rolls, who held that there was no obligation upon Mr. Cameron to continue in office. No other judge in the Courts was able to support this view; and the argument that the Commissioners' decision amounted to a finding of fact which could not be disturbed was decisively rejected.

Although the consequences will have been unfortunate for Mr. Cameron, the case is one of real importance because had he been successful a most serious type of evasion would have been created. It is only possible to give a summary of the conclusions reached; but their lordships' judgments deserve to be carefully read. In the first place, it was held that the size of a payment has no relevance to the question of whether it is one of capital or income. An agreement to refrain from giving notice of resignation is an agreement to continue to serve, and such service must be for a reasonable time, bearing in mind all the circumstances. A payment of remuneration in a lump sum would represent income and be taxable as such. Directors of a company have no power to make large payments to a co-director for clearly nominal consideration. The payment of the £45,000 must be considered in association with the £400 per annum.

A feature of importance is the restrictions which their lordships have placed upon the decision in *Hunter* v. *Dewhurst* ((1932) 146 L.T. 510, 11 A.T.C. 135, 16 T.C. 605). Although counsel for Mr. Cameron placed great

reliance upon it, it was held that it was decided upon its own special facts and afforded no guidance. Lord Wright was of opinion that " it is difficult to elicit any principle from the majority decision of the House." This interpretation will undoubtedly act as a powerful preventive of other schemes which might have been based upon it.

Income Tax—Schedule D—Sale of business to company —Orders received prior to date of sale executed by company as vendor's agent—Whether income or capital.

In *Southern* v. *Cohen's Executors* (K.B.D., March 20, 1940, T.R. 207) the testator sold his business to a private company and the vending agreement provided that all orders received prior to and unexecuted at the date of sale should be executed by the company as the vendor's agent, the company to receive 25 per cent. of the gross profits or commissions and the balance of 75 per cent. to be paid to the vendor. There was also a provision under the same clause of the vending agreement whereby the vendor was to receive 33⅓ per cent. of the gross profits on certain sales of stocks; but the report does not say whether liability was admitted or disputed as to this element. The City of London Commissioners had held that the sum of £10,607, representing, apparently, the 75 per cent. in respect of unexecuted orders, was a capital receipt in the hands of the deceased; but this decision was reversed by Lawrence, J., who held that, in accordance with the dictum of Lord Wright in *Commissioners of Inland Revenue* v. *Ramsay* ((1935) 14 A.T.C. 533, 20 T.C. 79), he had to consider the substance of the transaction, which could only be ascertained by a careful consideration of the vending contract. Clause 8 provided that unexecuted orders should be executed by the company as agent, and Clause 9 excluded the profits in question from the sale. In view of these provisions it was impossible to say that the deceased did not carry on a business through the agency of the company and that the sums received by him in respect of unexecuted orders were capital. They were profits of a new business which the parties chose to set up. Although it was connected with the old business it was carried on in a different way and it neither formed part of the business sold nor were its profits included in the sale. He rejected the argument that the Commissioners' decision amounted to a finding of fact.

Amounts representing capital expenditure are often, as in the case of engineers' and architects' fees, the taxable income of the recipients. Here was a case where an attempt was made to establish the converse position, that revenue expenditure by the purchasing company was a capital receipt in the hands of the vendor.

The Emergency Acts and Orders

In our November, 1939, issue we published the first instalment of a comprehensive guide to the war-time enactments and Orders which most concern the accountant. The series is brought up to date each month, and the seventh instalment is given below. The summaries are not intended to be exhaustive, but only to give the main content of an Act or Order, the full text of which should be consulted if details are required.

ORDERS

CIVIL DEFENCE

No. 312/S. 14.—*Civil Defence* (*References to Official Arbitrators*) (*Scotland*) *Rules*, 1940.

No. 313/S. 15.—*Civil Defence* (*References to Official Arbitrators*) (*Scotland*) *Fees Rules*, 1940.

Rules of procedure and fees are prescribed, for arbitrations in Scotland under Sections 20, 74 and 91 (11) of the Civil Defence Act, 1939.

(See ACCOUNTANCY, March, p. 164.)

COURTS

No. 408/L. 6.—*Courts* (*Emergency Powers*) (*Consolidation*) *Rules*, 1940.

No. 531/L. 8.—*County Court* (*Emergency Powers*) (*Consolidation*) *Rules*, 1940.

These Orders supersede previous Orders on the same subject. They prescribe the appropriate Court for giving the leave required by Section 1 of the Courts (Emergency Powers) Act, 1939, and the procedure to be followed.

(See ACCOUNTANCY, April, p. 195.)

DEFENCE

No. 383.—*Order in Council adding Regulation* 81*A to the Defence* (*General*) *Regulations*, 1939.

No person shall attempt to obtain commission in connection with Government contracts by representing that he has any connection or influence with a Government Department. An exception is made with respect to accredited agents when the principal has sent a notification to the department concerned. The payment of commission is similarly prohibited.

Defence Regulations

A further consolidated edition of all Regulations made under the Emergency Powers (Defence) Act, 1939, embodies all amendments up to March 19, 1940.

(See ACCOUNTANCY, March, p. 164.)

EMPLOYMENT

No. 522.—*Control of Employment* (*Advertisements*) *Order*, 1940.

Employers engaged in the building industry or in civil engineering contracting are forbidden to publish any advertisement or notice stating that they wish to engage carpenters, joiners or bricklayers.

FACTORIES

No. 451.—*Factory Undertakings* (*Records and Information*) (*No.* 1) *Order*, 1940.

The Minister of Supply may require the proprietors of any factory undertaking to keep records of the main products manufactured by, and the numbers and industrial categories of persons (including details of sex and ages) employed in, the undertaking. The Minister of Labour may require production of the records or of information on these subjects.

EXPORTS

Nos. 413, 525.—*Export of Goods (Control) Orders*, 1940, *Nos.* 9 *and* 10.

A number of amendments are made in the list of goods which may not be exported without a licence.

No. 551—*Export of Goods (Control) (No.* 11) *Order*, 1940.

It is forbidden to export any goods to Denmark, Estonia, Finland, Latvia, Lithuania, Norway or Sweden, or to the Baltic or Arctic Coasts of the U.S.S.R.

(See ACCOUNTANCY, April, p. 195.)

FINANCE

No. 356.—*Securities (Exemption) Order*, 1940.

A number of securities issued by certain governments and municipalities in South America, Mexico, China, Egypt, Russia and the Balkans are exempted from the provisions of Regulation 1 of the Defence (Finance) Regulations, 1939, which authorises the acquisition of securities by the Treasury.

No. 527.—*Acquisition of Securities (No.* 2) *Order*, 1940.

The Treasury transfer to themselves at prescribed prices, which are the market values on April 13, 1940, holdings of more than a hundred American securities in respect of which returns have been made to the Bank of England under the Securities (Restrictions and Returns) Order, 1939. Treasury Directions have also been issued for the surrender of documents of title.

(See ACCOUNTANCY, March, p. 165.)

No. 376.—*Export Control (Amendment) (No.* 1) *Order*, 1940.

Uruguay is excluded from the territories to which certain goods may not be exported unless they are paid for in certain foreign currencies.

(See ACCOUNTANCY, April, p. 195.)

No. 455.—*Currency Restrictions (Travellers' Exemption) Amendment Order*, 1940.

A person leaving the United Kingdom for a destination in enemy territory as defined in the Trading with the Enemy Act, 1939, may take bank notes or foreign currency not exceeding £2 in value. For other destinations the limitation is still £25 for Eire and £10 elsewhere.

(See ACCOUNTANCY, November, 1939, p. 40.)

FRIENDLY AND INDUSTRIAL AND PROVIDENT SOCIETIES

No. 247.—*Industrial Assurance Rules*, 1940.

No. 248.—*Friendly Society Rules*, 1940.

Forms of statements and notices are prescribed for the purposes of the Industrial Assurance and Friendly Societies (Emergency Protection from Forfeiture) Act, 1940.

(See ACCOUNTANCY, March, 1940, p. 164.)

IMPORTS

Nos. 533, 534, 535, 550.—*Import of Goods (Prohibition) Orders*, 1940, *Nos.* 13, 14, 15, 16.

Further additions are made to the list of goods prohibited to be imported except under licence.

(See ACCOUNTANCY, April, p. 195.)

NATIONAL SERVICE

No. 404.—*National Service (Armed Forces) (Miscellaneous) (Amendment) Regulations*, 1940.

An applicant before a Hardship Committee, the Umpire, or a Local or Appellate Tribunal may be represented by a representative of his trade union or by a relative or personal friend. Both the applicant and the Minister may be represented by counsel or solicitor in cases before the Umpire or a Local or Appellate Tribunal. In cases before a Committee a barrister or solicitor may not appear unless he is a relative or personal friend of the applicant.

No. 503.—*National Service (Armed Forces) (Postponement Certificates) (Amendment) Regulations*, 1940.

The period for which a postponement certificate may be granted when there has been an appeal to the Umpire is either six months from the application to the Minister or a period ending one month after the decision of the Umpire, whichever is the longer.

(See ACCOUNTANCY, December, 1939, p. 66.)

WAR RISKS INSURANCE

No. 294.—*War Risks Insurance (General Exceptions) Order*, 1940.

Previous General Exceptions Orders are revoked, and a consolidated Schedule is given of goods not insurable under the commodity insurance scheme.

No. 462.—*War Risks (Commodity Insurance) (No.* 3) *Order*, 1940.

The amount of any one premium on a policy under the commodity insurance scheme shall be not less than five shillings or one-quarter of one per cent. of the sum insured, whichever is the greater, for a period not exceeding one month, or fifteen shillings or three-quarters of one per cent. for a longer period. An explanatory note issued by the Board of Trade (Cmd. 6192) states that the aim is to ensure that the amount of premium is not diminished by delay in taking out the policy, and that adjustments will be made where a person becomes liable to insure during the insurance period.

(See ACCOUNTANCY, April, p. 195.)

AN ANNUAL FINANCIAL REVIEW

The issue of *The Financial News* dated April 22 is accompanied by the annual Banking, Insurance and Financial Review. In spite of the difficulties of war-time production, the scope of the Supplement has been broadened to include a very readable review of the wider issues of economic and financial policy in war-time. The first article is on "Britain's War Effort," by W. T. C. King, who reviews the progress made, but stresses the need for more comprehensive planning to develop the maximum war effort. The effect of war on banking, national finance, foreign exchanges, the capital market, and insurance, is shown in subsequent articles, while others deal with economic repercussions in France, Australasia, India, South Africa, Canada, U.S.A., Latin America, and other countries, and the German war effort.

LAW

Legal Notes

COMPANY LAW

Directors' powers and rights—Annual General Meeting —Issue of stamped proxies to selected shareholders—Contracts with other companies having same persons as directors—Companies Clauses (Consolidation) Act, 1845.

In Wilson v. *London Midland and Scottish Railway Company* (1940, W.N. 98), a stockholder of the company claimed that the directors had acted illegally and *ultra vires* the company, because he alleged that the defendant company was using its powers and spending money unlawfully in sending out before the annual general meeting proxies filled in with the names of directors, together with stamped envelopes for their return, to stockholders holding stock of £2,500 or over, but not to small stockholders ; he therefore claimed an injunction to restrain the company and the directors from depriving the minority of the special privilege given to the majority to vote by proxy at the general meeting at the company's expense. He also asked for a declaration that directors of the company who were also directors of other companies trading directly or indirectly with the company were contravening the provisions of the railway company's Special Act and the Companies Clauses (Consolidation) Act, 1845, Section 85.

On the first point, the Master of the Rolls said the appellant's contention, namely that all stockholders should be treated alike, and that proxies should be issued to all or none, had no legal foundation. That was not a case where for the purpose of a controversy to be fought out at a meeting the directors selected a particular class of stockholders so as to influence the voting. What the directors had done was a matter of practice and there was nothing sinister about it. On the second point, it was not the business of the Court to consider questions of the Company's policy. Provided a public company was doing what the law enjoined and not what the law forbade, all matters of policy must be dealt with by the ordinary internal machinery of the company without interference from the Court. If the appellant objected to the policy followed, he should try to get it changed, but that was not a matter within the competence of the Court. On both points, therefore, the appeal from Simonds, J. was dismissed.

EXECUTORSHIP LAW AND TRUSTS

Will—Construction—If any child " shall die."

The *prima facie* rule is that where, in a will, words of futurity are used without a clear indication of the time contemplated by the testator, they speak from the date of executing the will. But that rule is inapplicable in a question of what property is comprised in the will. The context may show that the time contemplated was the time of the testator's death ; in the case of a description of donees, the presumption is that their description is to be construed according to the circumstances existing at the date the will was made. In *Re Birchall, Re Valentine, Kennedy* v. *Birchall* (1940, W.N. 88), the Court of Appeal overruled a decision of the Vice-Chancellor of the Palatine Court of the County of Lancaster. The facts were :— A testatrix left property on trust for her children living at her death, and, if any such child " shall die in my lifetime leaving a child or children living at my death who being male attain the age of 21 years or being female attain that age or marry," the parent's share was to be taken by the grandchildren as though such child had survived the testatrix. The Court of Appeal held that the children of a child already dead at the date of the will who had attained 21 and were living at the death of the testatrix, were entitled to share in the residuary estate.

Will—Construction—Annuity " free of all deductions" —Income-tax not a " deduction."

Unless there is a clear intention in a will that income tax shall be included in the term " deductions," the gift of an annuity " free of all deductions " will not discharge the annuitant from liability for income tax on his own annuity. This principle was illustrated in *Re Cowlishaw* (1939, 1 Ch. 654) (noted in ACCOUNTANCY, April 1939, p. 253), though in that case Bennett, J. held that an annuity " free of all duties, to be paid free of all deductions " must mean " free of income tax." In the recent case of *In re Wells's Will Trusts—Public Trustee* v. *Wells*, (1940, 56 T.L.R. 443), a testator directed his trustees to pay certain annuities free of duties, including one to his wife " free of all deductions." In one respect the facts were distinguishable from those in *Re Cowlishaw*, namely that in the present case the fees payable to the Public Trustee could be termed a " deduction," whilst in the former, the only conceivable deduction was the payment of income tax. Simonds, J. held therefore that in this case the annuity was not payable free of income tax. In his judgment, considerable doubt was thrown upon the correctness of the decision in *Re Cowlishaw*. He said that the large number of authorities had not been cited before Bennett, J., particularly an unreported case, *In re Shepherd*, a case before the Court of Appeal in 1920. In that case, the Court of Appeal, affirming Peterson, J., held that an annuity " free of duties, to be paid free of all deductions whatsoever " was not payable free of tax. Thus it is clear that *Re Cowlishaw* cannot be relied upon as a binding authority, and the point is emphasised that testators who wish to provide annuities free of income tax must be careful to state their intentions in express terms.

Apportionment Act, 1870*—Purchase of Shares under option in will—Dividends not apportionable.*

On a sale of shares between strangers, no question of apportionment arises, because they are bought either cum dividend or ex dividend. In the recent

case of *re Wimbush, Richards* v. *Wimbush and Others* (1940, 1 All E.R., 229), the Court had to decide whether there should be any apportionment when a beneficiary buys shares in the exercise of an option, given him by a will. Morton, J., decided that there was no apportionment. The facts were as follows :— By his will made in October, 1934, the testator directed his executors to offer his son the testator's shares in a company, with a maximum price. The offer was accepted and the sale was completed on September 24, 1935. A dispute arose as to the dividend on the year ended December 31, 1935. The son contended he was entitled to the whole of it; but it was argued for the residuary legatees that the Apportionment Act, 1870, applied, and that therefore the son was only entitled to that portion of the dividend which represented the period of 1935 subsequent to his purchase, namely, from September 24 to December 31. It was held that dividends on the shares were not apportionable.

FINANCE

The Month in the City

The Budget and Investment

In the short run, at any rate, it was a gilt-edged Budget; and the gilt-edged market immediately responded with an all-round rise which raised old War Loan to par ex dividend and sent the new War Loan above par for the first time since dealings began. The mere absence of any further increase in direct taxation would no doubt have been sufficient to secure a favourable reaction, for a rise in income tax had been very generally canvassed. More positively, the proposed limitation of company dividends should prove of considerable assistance at a later stage in moderating pressure on the interest rate structure. Its broad effect must be to remove or severely restrict the equity element —already emasculated by E.P.T.—over a wide range of shares, and thus to enhance the relative attractions of gilt-edged and other high-class fixed interest securities which, after all, are not subject to reductions of dividend. On the whole, however, one would expect the adjustment of relative values to take place through a marking down of ordinaries rather than any actual selling of industrials in order to switch into fixed interest stocks; while the fact that new savings will more readily flow direct into Government securities, instead of bidding up industrial shares en route, is of little importance in the long run.

The direct support which gilt-edged will derive from the blocking of surplus profits seems likely to be moderate in the absence of severe inflation. A great deal of Government expenditure is paid out directly to individuals and not to public companies at all. Secondly, many industries will still have considerable scope for dividend increases above the present rate, while those more immediately effected may tend to pay out more in costs. There is general acceptance of Mr. Keynes' suggestion that the limitation is unlikely to affect this year more than £25,000,000 of profits which would otherwise have been distributed. Finally, steps will be necessary to ensure that the undistributed profits are in fact diverted to Government loans and not used for extensions of plant. Even if its effects are moderate, however, the dividend limitation must at least tend to help gilt-edged. Can the same be said of the proposal to finance a deficit of over £1,400 million, assuming a very moderate expenditure figure, by borrowing? If £600 million is met by drafts on capital, such as depletion of exchange reserves, a substantial increase in voluntary savings would still be needed. The Treasury will not this time make the mistake of offering high rates in the hope of inducing such an increase. But if the response to propaganda should be disappointing, the resulting inflation must tend in the long run to undermine gilt-edged values.

Exeunt Equities

Limitation of dividends must profoundly modify the investment outlook in the various sections of the share markets, though the terms in which the new measure was announced were too indefinite for its effects to be discounted with any precision at once. It is clear, however, that the measure must adversely affect the shares of industries recently depressed, such as textiles. It must particularly blight the hopes of holders of home rail marginal stocks, such as Great Western ordinary and L.M.S. ordinary, both of which might otherwise have achieved maximum earnings of over 8 per cent. On the other hand, the dividend restriction singles out as the chief remaining equities the shares which benefited most from the rearmament boom of 1937, which means in particular the commodity groups, such as tin shares unless statutory companies are exempt. In addition, it lends an added piquancy to the recovery equity in the " war casualties," such as building shares, wireless and greyhound racing shares, and favours shares registered abroad by comparison with those registered in the U.K. (e.g., most Kaffirs against West African gold mines). Tobacco and brewery shares stood up remarkably well to yet another heavy increase in indirect taxation, but the provision group was depressed by the prospect of a purchases tax. On balance, an eventful month has made little difference to security values as a whole. In the earlier part of the month business was at a standstill pending the large War Loan payment and the Budget, while markets refused to be upset by the invasion of Norway and Denmark and the various uncertainties inevitably connected with an intensification of the war. On balance the *Financial News* index of ordinary shares is 1.6 lower at 76.0, and the fixed-interest index is 0.5 higher at 125.4.

Another Dollar Securities Call-up

Within two months of the original vesting order, the Treasury has issued a second order requisitioning a further 117 American securities. Since the present group includes a number of the popular market leaders, such as U.S. Steel and Chrysler, it is estimated to cover total holdings at least double those affected by the first order, which were currently estimated at £25 to £30 million. In taking over £75 to £100 million of securities within so short a period, the Treasury is clearly accumulating a substantial pool awaiting liquidation, for even in the early months of the war realisations on British account were running at appreciably less than £100

million per annum. This will no doubt assist the Treasury in its declared object of smoothing out the flow of liquidation, which might cease altogether if private holders were taking a bullish view of American markets, or on the other hand jump to levels which might depress the American markets on any shock to confidence. From the national point of view it is probably desirable that these investments should steadily be converted into dollars, for although this must permanently reduce our interest income from abroad this is outweighed by the need to keep ample gold in hand for a real emergency, such as a temporary stoppage of production. Not unnaturally, the requisitioning has led to some complaints of hardship on the part of holders who are forced to sell out at a loss and would have preferred to hold in the hope of recovery. In general, however, holders would not seem to have been unfairly treated, since they receive the full market price (which includes the full benefit of the depreciation of sterling) and are paid out in cash which they can reinvest in any type of security they choose, instead of being paid out in Government stock. This reinvestment demand should tend to lend support to markets when the payment is effected at the end of the month.

Points from Published Accounts

The Dunlop Report.—The Dunlop Rubber Company's report is an accounting education in itself. Its distinctive features are well known throughout the accountancy profession, and whatever views may be taken on the arguable question " To consolidate or not to consolidate ? " the report presents information with clarity and detail which could hardly be surpassed among British company reports. It is perhaps permissible to recapitulate, quite briefly, some of its outstanding features. The accounts section of the report begins with a statement of aggregate profits, which is printed as this month's supplement to these notes. The aggregate total, it will be observed, distinguishes between the actual trading profits of the parent company plus its proportion of subsidiary profits for 1939 (Item I) and the parent company's proportion of various items—mainly delayed dividends received from subsidiaries in countries with controlled economies—which are not

DUNLOP RUBBER CO., LTD.

Statement of Profits for the Year 1939

1938 £		£	£
	I. THE AGGREGATE PROFITS OF THE DUNLOP RUBBER CO., LTD., for the year 1939, including its proportion of the profits *less* losses of all Subsidiary and sub-Subsidiary Companies (other than those referred to in the note below) after providing for Depreciation, etc., but before providing for guaranteed Preference Dividends of Subsidiary Companies amount to		4,154,807
109,776	II. IN ADDITION, the Dunlop Rubber Company's proportion of various items which do not represent normal earnings attributable to the current year amounts to ...		123,392
2,375,245	III. AGGREGATE TOTAL		4,278,199
	IV. FROM THE RESULTS OF SUBSIDIARY AND SUB-SUBSIDIARY COMPANIES INCLUDED ABOVE THERE HAS BEEN DEDUCTED :—		
434,107	(*a*) The Dunlop Rubber Company's proportion of British and Foreign Taxation paid by or provided in the accounts of such companies	861,252	
106,031	(*b*) The whole of the Guaranteed Preference Dividend of Dunlop Cotton Mills, Ltd., for the year to January 31, 1940, paid by that Company	95,063	
13,432	(*c*) The whole of the Guaranteed Preference Dividend of Dunlop Rubber Co. (India), Ltd., for the year to December 31, 1939, paid by that Company	13,453	
52,255	(*d*) The Dunlop Rubber Company's proportion of special appropriations and undistributed profits of the year held in reserve	195,139	
605,825			1,164,907
1,769,420	V. BALANCE AVAILABLE TO THE DUNLOP RUBBER CO., LTD., as per that Company's Profit and Loss Account		3,113,292
	VI. DEDUCT :—		
108,750	(*a*) Guaranteed Preference Dividend of Dunlop Plantations, Ltd., borne by the Dunlop Rubber Co., Ltd.	97,500	
159,777	(*b*) Interest on Debenture Stock and Loans	162,659	
268,527			260,159
1,500,893	VII. LEAVING THE NET PROFIT AS PER THE DUNLOP RUBBER COMPANY'S PROFIT AND LOSS ACCOUNT		2,853,133
591,429	VIII. *Add* Balance brought forward from last year		603,420
£2,092,322	IX. TOTAL AVAILABLE		*£3,456,553*

NOTE.—The profits of certain of the Subsidiary and Associated Companies situated in countries of which the Economies are closely controlled have been included under Item II in the above statement only to the extent of Dividends and Interest received.

normal earnings attributable to the accounting year (Item II). From the aggregate total are deducted the parent company's proportion of taxation paid by the subsidiaries, two guaranteed preference dividends and the parent company's proportion of special appropriations and undistributed profits of the subsidiaries. This leaves a balance (Item V) of £3,113,292, which agrees with the amount shown in the Dunlop Rubber Company's profit and loss account. The desirability of drawing up consolidated statements so that the shareholder can dovetail the figures with the parent company's own profit and loss account has been stressed here on several occasions and the Dunlop Rubber Company has endorsed this simple, but not invariably observed, principle.

Consolidation and Frozen Assets.—In view of the ubiquitous character of exchange control it is sometimes urged that any consolidated statement of assets and liabilities of a group with numerous subsidiaries abroad can have but little meaning, for if assets in countries with controlled economies cannot be freely transferred, they cannot properly be regarded as at the free disposition of the parent company. The Dunlop Rubber consolidated statement has for several years past conceded this point. For certain subsidiaries " in countries of which the economies are closely controlled and where it is not possible freely to transfer funds from those countries " the amounts invested and advanced to subsidiaries are shown separately in the consolidated statement of assets and liabilities at book value, and their assets and liabilities are not classified among the respective headings. This method, of course, limits the comprehensiveness of the consolidated balance sheet, and ultimately, if the world becomes even more madly autarkic than it is already, any attempt at consolidation would have to be abandoned. But it cannot be denied that the method takes a far more realistic view of the group's position than any attempt to consolidate the figures for subsidiaries in controlled economies at " fancy " rates of exchange.

Another feature of the Dunlop report—which other large industrial concerns might emulate—is a comparison of profit and loss and balance sheet figures for the past six years. This feature must be of considerable value to shareholders and it has doubtless been studied by them with the more satisfaction because it reveals a favourable trend. Unfortunately, however, accounts presented with such detail and elegance are necessarily lengthy—the Dunlop report runs to fifteen pages—and not inexpensive to produce. But Dunlop has pointed a way which other companies might surely follow. Judged purely as an advertisement, the Dunlop report has probably paid the company well in prestige. That is a lesson which might be considered by many other large industrial undertakings.

Two Transatlantic Reports.—The Dunlop Rubber Company's report will stand comparison with the accounts of the International Nickel Company (Canada) and the United States Steel Corporation. These latter documents are, of course, among the fullest and most detailed company reports published in the world, and in view of the size of the undertakings, special interest attaches to the auditors' certificates, which are given in each case by the same firm. The certificates, slightly paraphrased, state that the auditors have examined the consolidated balance sheets of the companies and their subsidiary undertakings, and the consolidated statements of profit and loss accounts for the year. The auditors then point out that they have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, they have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent which they deemed appropriate. They then proceed to certify that the accounts fairly present the position of the combined affairs of the groups, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Two important points stand out in these certificates. First of all the auditors specifically disclaim any attempt to examine the companies' transactions in detail, and secondly they show that the results have been prepared on a consistent basis with those of the preceding year. Both points might be considered by the accounting profession in this country. It is, of course, widely appreciated that auditors do not undertake to check every detail of any company's transactions and that they are not responsible for physical stocktaking and other matters. But among shareholders, there is still a disposition to read into an auditor's certificate more than it actually certifies, and it might be well in such cases to emphasise that the auditor's work is generally limited to test checks and relies upon the efficiency of internal audit tests for the validity of the greater part of the company's ordinary business transactions.

A Vickers' Example.—The second point—that of a consistent basis for the accounts—has been rather to the fore among British company reports in the past few months. Several leading companies have changed the basis of their taxation provisions, with the result that comparison of the latest profits figures with those of the preceding year is frequently impossible. In a few cases, comparative figures have been provided, but in general the change in the taxation basis has left shareholders with no adequate insight into the actual trend of trading profits. Even where comparative figures are provided, the shareholder is sometimes left with limited information. For example, Vickers, Limited, in 1938 showed profits of £1,975,608 on a gross basis, and charged against this sum £503,397 for income tax. In the latest report profits are shown after providing for income tax at £1,295,540, compared with the net amount of £1,472,211 for the preceding year. In other words, the company now deducts tax before striking its profits, and consequently limits the shareholder's knowledge of the movement of trading profits.

In this case, perhaps, this is a less serious matter than in others, because the Vickers report actually includes no fewer than four companies' balance sheets and profit and loss accounts, namely, those of the parent company itself, Vickers-Armstrongs, English Steel Corporation and Metropolitan-Cammell Carriage and Wagon Company. Accounting students who are looking for an exercise in consolidation might tackle the figures of this group. They will not find the problem an easy one.

PUBLICATIONS

The Month's Publications

The Excess Profits Tax. By Leonard Stein, Barrister-at-Law, and Herbert H. Marks, F.C.A. (Sweet & Maxwell, Ltd. Price 12s. 6d. net.)

The Excess Profits Tax. By H. E. Seed, A.C.A., A.S.A.A. (Gee & Co. (Publishers), Ltd. Price 10s. 6d. net.)

Excess Profits Tax and National Defence Contribution. By Ernest Evan Spicer, F.C.A. (Sir Isaac Pitman & Sons, Ltd. Price 10s. 6d. net.)

Stein and Marks' book recalls earlier works by the same authors, notably their critical analysis of the 1936 Finance Act, and it certainly maintains the very high standard we expect from them. It is, moreover, the kind of book which repays repeated study—each new reference to it bringing out deeper meanings and new light. It may not be the book for everybody to read—the most appreciative readers will be lawyers and taxation specialists.

One of the best features of the book is the very useful discussion on the meaning of " director-control " and the point is brought out that controlling directors include " managers " with 20 per cent. of the *ordinary* share capital, but that " working proprietors " must own 20 per cent. of the share capital of all classes. In the discussions hitherto on this subject it has, perhaps, not been sufficiently realised that the word " director " has a very extended meaning and covers many persons other than directors in the ordinary meaning of the word.

In dealing with the question of changes in the ownership of a business, the authors show that the general rule is that any change whatever means the cessation of that business and the commencement of another, and that apparent exceptions to this general rule are not exceptions at all, but merely directions to disregard it for the special and limited purpose of computing standard profits only.

Dealing with the question of amalgamations, the authors embark upon an extremely interesting discussion, which, though almost entirely speculation, can be recommended to the specialist reader.

This book, like the other two referred to below, comes out when we have all had time to work out a number of computations and to get some idea of the interpretations the Revenue will probably use. In particular, the question of computation of capital, so exasperatingly ignored in all the earlier books, is now more clearly seen, and it is realised, as indeed all these books show, that merely to take the opening and closing capitals, add up, and divide by two, does not give the correct result. Every change of capital in and out must be taken account of and the first requisite, therefore, is a reconciliation of the two capitals. Thereafter, adjustment must be made for each item separately.

Since there is already a considerable body of case law based on the earlier statutes relating to National Defence Contribution and Excess Profits Duty, it may be expected that it will be referred to quite often when the interpretation of Excess Profits Tax sections is in dispute. Not the least useful feature of Stein and Marks' book, therefore, is the references to comparable legislation for both National Defence Contribution and Excess Profits Duty.

Mr. Seed's book will appeal to a different public, since it consists mainly of a simplified version of the Act in the author's own words. It has, however, some valuable features of which we note in particular the following three :—

(1) Mr. Seed makes a case for the proposal that losses and " minus " capital should be taken as nil where comparisons are being made with later years.

(2) The book includes the best description that has yet appeared of the wear and tear provisions and suggests a very useful and easily applied method of working out the allowance.

(3) Finally, throughout the book there are numerous references to a very wide selection of case law, including cases outside the usual standard ones which everybody else has already quoted. The reader of this book who follows up all these references will be well primed with the legal aspect of his case, at any rate.

The selection of books on any subject of interest to accountants would not be complete without the appearance among the authors of a certain very well known and well-regarded name, and here is Mr. Ernest Evan Spicer in the field with a most useful contribution. *Mr. Spicer's* book is about the best short summary of the Act that has yet appeared. It enters into no speculations about out-of-the-way interpretations of the Act, but sets out in simple and clear language what the Act says (and if the reader thinks that is not a difficult task let him try it).

This book is, moreover, produced in what is, perhaps, the pleasantest format of all the books so far. Bound in a dignified shade of blue, it seems to give promise of sober and cautious reflection on its subject. It is printed on shiny white paper in Sir Isaac Pitman & Sons' beautiful and easily read type (incidentally, will these books be one of the first casualties of the war-time paper shortage ?) and is altogether a comfortable book to read.

JAMES G. MCBURNIE.

Among the Balance Sheets. By the Editor of " Finance and Commerce " in *The Accountant*. (Gee & Co. (Publishers), Ltd., London. Price 17s. 6d. net.)

No one who takes the trouble to examine a sample of balance sheets published during, say, the last fifteen years can help observing the improvement in their presentation and content. Though the Greene Com-

mittee and the Companies Act of 1929 were partly responsible, some of the improvement has doubtless been due to a change in public and professional opinion, a change for which THE ACCOUNTANT is entitled to no small share of credit. Under the title of " Finance and Commerce," THE ACCOUNTANT has each week discussed and criticised in a detached and impartial manner the form and content of published accounts.

It was a happy idea which led the editor of " Finance and Commerce " to prepare, and Messrs. Gee & Co. to publish, a survey of the developments of recent years, illustrated by the reproduction of the accounts of public companies. The volume is divided into a number of sections, the first of which deals with the pioneers of change, including, of course, the Dunlop accounts associated with Mr. de Paula's name. Two small sections concerned respectively with dividends and Australian accounting are followed by a discussion of the large-scale holding company and a section rather caustically entitled, " Pretty Balance Sheets." The author concludes this section with the words : " Moreover, the practice of adjusting figures to make a ' pretty balance sheet ' can destroy confidence in company accounts and in the auditors who certify such accounts."

The next problem to which attention is devoted is the difficulty which shareholders too often experience in getting things changed. This is illustrated by reference to the accounts of a large company about which it was once said : " If the directors were to publish the balance sheet in Sanscrit, shareholders would be no worse off." Other matters which the author discusses are chairmen's speeches, stock values, auditors and depreciation, bankers' accounts, and interim reports. The author points out that it seems absurd that shareholders should have to wait twelve months between accounts and then, on the average, find the information three months old. The New York Stock Exchange insists on quarterly financial statements from those companies whose shares are admitted to business.

Improvements in balance-sheet practice are doubtless important, but to-day it is the profit and loss statement which cries aloud for revolutionary treatment not only in form, but even more urgently in content. To form an adequate opinion of the affairs of any company it is necessary to have data showing how the figure of net profit has been derived. It is turnover and the details of expenditure which provide the significant background for investors' decisions. The principal argument against the disclosure of this information is that it would assist competitors, an objection which, though strong, may not always be paramount. There is, however, a wider social issue which cannot indefinitely be forced into the background. Are not the affairs of, say, Imperial Chemical Industries, Ltd., of such importance to our economy that society is entitled to a full account of them, even if the result should be something in the nature of a small book ? One development to which we may look forward is the employment of funds statements along the same lines as, but fuller than, those published by some U.S. corporations.

It is to be hoped that Messrs. Gee & Co. will turn this volume into an Annual. The present price is, of course, too high for this purpose, but when balance sheets are reproduced for THE ACCOUNTANT, it might be possible to keep the type standing for the more interesting of them and to use it for the Annual. At 7s. 6d. this might well be a financial success and would prove of undoubted value to both practitioners and students.

RONALD S. EDWARDS.

BOOKS RECEIVED

Loose-Leaf War Legislation, 1940. Edited by John Burke. Parts 1 and 2. (Hamish Hamilton (Law Books), Ltd., London. Price 5s. net each part.)

Papers on Auditing Procedure and other Accounting Subjects, presented at the Fifty-Second Annual Meeting. (American Institute of Accountants, New York. Price $1 net.)

Economics. By Frederic Benham, Sir Ernest Cassel Reader in Commerce in the University of London. Second edition. (Sir Isaac Pitman & Sons, Ltd., London. Price 7s. 6d. net.)

The Book of the Stock Exchange. By F. E. Armstrong. Third edition. (Sir Isaac Pitman & Sons, Ltd., London. Price 10s. 6d. net.)

LETTERS TO THE EDITOR

Wear and Tear Allowance : E.P.T.

DEAR SIR,—Your contributor remarks that the computation of wear and tear on a similar formula to that which may be adopted for N.D.C. " would, in many cases, be an involved and cumbersome task." Even if this be so, it would hardly appear to be appropriate for a professional accountant to put forward such an argument ; the criterion should surely be the effect on the liability of the client of the adoption of some easy but less accurate method of computation in place of a separate and detailed computation.

The general effect of the separate computation of wear and tear by reference to the dates of additions to the plant is to anticipate the future years in some degree, and is invariably advantageous for N.D.C. But for E.P.T. there may or may not be advantage from following the method, depending on the additions to plant in the standard years as compared with the actual or anticipated additions in the chargeable accounting periods. Having regard to the much higher costs of replacements and additions at the present time, an increase in the wear and tear allowance in the standard period will usually be much more than outweighed by the higher wear and tear allowance in the chargeable accounting periods, as arising out of the separate computation method. If, however, there are likely to be few replacements or additions during the war, the adoption of the income tax wear and tear figures will produce the better result—from the taxpayer's point of view. The matter is also affected by the year in which heavy additions have been made, e.g., the separate computation may be disadvantageous if heavy additions were made during 1938.

Your contributor's suggestion that the profits for calendar years should first be computed before deduction of the wear and tear allowance is incorrect in principle. Wear and tear is a deduction in computing profits for

E.P.T., and the deductions must therefore be made in computing the profits arising in the accounting period, after which apportionments to calendar years may be made.

Whilst the meaning to be attached to the word "standard period" at the end of Rule 2, Part I, Seventh Schedule, is not free from doubt, it is clear that the 20 per cent. addition to the wear and tear allowance does not commence at April, 1938. If 1937 is one of the standard period years, the 20 per cent. addition is to be made to the wear and tear of the first period which falls entirely beyond December 31, 1937. The additional allowance for an accounting period to September 30, 1938, would thus be 10 per cent.

Yours faithfully,
VICTOR H. M. BAYLEY.

London.
April 8, 1940.

Losses and/or Deficiencies of Capital in Standard Period: E.P.T.

DEAR SIR,—In last month's issue the view was expressed that if, on computing standard profits or capital employed according to the rules laid down in the Act, the result is in either case a minus quantity, the standard or capital as the case may be should be regarded as nil.

With great respect to the writer of that note, this view appears to be based on fallacious reasoning.

The argument apparently proceeds on the footing that the Act contemplates a profit only in the standard period, and that this condition is met by treating a loss in such period as Nil. To test this view, the question may be considered algebraically. Speaking in terms of standard profit, if the quantity is positive, the plus sign would be prefixed to the amount when writing it down, whilst in the case of a negative quantity, the minus sign would be used. Adopting this notation, with x representing the profit standard, how can it be proved that minus x=Zero, unless there is neither profit nor loss in the standard period?

If it had been contended that in the absence of a profit standard no liability to the tax is exigible, this perhaps would have been understandable, without necessarily being convincing.

Coming to the capital employed in the business, if in applying the provision for computing capital laid down in Part II, 7th Schedule, Finance (No. 2) Act, 1939, a multinomial expression is built up, why is a negative result not permitted? Surely it would have been perfectly easy for the Legislature, if so minded, to have inserted after para. 2 of the Rules in question a clause to the effect that if the result of deducting the debts and borrowed money was to give a minus quantity, this should be ignored and the liability computed on the footing that there was no capital employed in the business. Not having done so, the Act must be construed accordingly.

The sole purpose of computing a standard, whether of profit or capital, is for comparison, and if this purpose is kept in view, the difficulty felt in accepting a negative standard will be overcome. It would be a specious argument to say that when you are comparing temperatures, minus 14 is not a degree of heat, but one of cold.

Whether a negative profit standard would be adopted in practice depends on a number of factors which need not be discussed here, but it may be mentioned in conclusion that a case with a deficiency of capital in the standard period considerably greater than that in the chargeable period has been agreed, with the appropriate percentage on such decrease in deficiency augmenting the standard based on profits.

A. F. C.

London,
April, 1940.

IN PARLIAMENT

DERATING (INDUSTRIAL HEREDITAMENTS)

Mr. Silkin asked the Minister of Health whether the need for the continued derating of industrial hereditaments still exists; and whether he will consider the question of introducing legislation requiring occupiers of industrial hereditaments to pay their full rate?

Mr. Elliot: Derating was a measure of permanent reform in the system of local taxation, and was accompanied by grants which are an integral feature of the financial arrangements between the Exchequer and local authorities. I do not contemplate the introduction of legislation with the object of reversing these provisions.

ENEMY DEBTS (REGISTER)

Captain Strickland asked the President of the Board of Trade whether it is the intention of His Majesty's Government to set up a register of claims by British nationals arising out of debts due by firms in Germany, and in the countries occupied by Germany, liquidation of British property, etc., as was done in the case of the last war; and, if so, when the register is likely to commence operations?

Mr. Shakespeare: It has been decided to set up a register of debts due to persons in this country from enemies as soon as the necessary details can be settled.

ESTATE DUTY (BEQUESTS FOR RESEARCH)

Captain Plugge asked the Chancellor of the Exchequer what is the present position with regard to exemption from Estate Duties of bequests for research; and whether he will consider taking steps to amend the present law so as to give greater encouragement to such bequests?

Sir J. Simon: There is no provision in the law for exempting from Estate Duty bequests for research, and I am not prepared to propose any alteration of the law in this respect.

INCOME TAX (AIR-RAID SHELTER RENTS)

Mr. R. Morgan asked the Chancellor of the Exchequer whether, in view of the fact that under Section 22 of the Civil Defence Act, landlords who erect shelters are not recouped in respect of compensation paid to a tenant who has made his premises available in whole, or in part, for the construction of a shelter, and that they cannot recover interest on the capital sum they have found for such a shelter, he will consider waiving any collection of Income Tax on the air-raid shelter rents to be paid by tenants of commercial buildings, in so far as such rents represent a proportion of the sum paid as compensation?

Sir J. Simon : I could not accept the suggestion underlying my hon. Friend's question that tax payable under the provisions of the Income Tax Acts should be remitted as a means of supplementing the provisions of Section 22 of the Civil Defence Act for the payment of grants, even if—which I am not to be taken as admitting—the latter provisions required to be supplemented.

TRUCK ACTS (GOVERNMENT PROPOSALS)

Sir George Broadbridge asked the Home Secretary whether he has completed his examination of the position consequent on the recent decision of the House of Lords regarding the operation of the Truck Acts ; and whether he is now in a position to make a statement ?

Sir J. Anderson : I am advised that the effect of the decision of the House of Lords in the recent case of *Pratt* v. *Cook*, is that in certain classes of case an employer may not contract to remunerate a workman, for example, with £3 a week, plus meals valued at say 10s., even where he could legally have contracted to pay £3 10s. less 10s. for meals supplied, and that where a contract has been in the form now declared to be illegal, claims can be made for the recovery of the remuneration not paid in cash over a period of 20 years past. The result is that a number of workpeople, in various employments, who have been supplied with food or other things as part of their remuneration, in some cases with specific trade union agreement, can, if the contract happens to have been cast in the form now declared to be illegal, claim to be remunerated twice over. Some claims of this kind have already been launched, and there is reason to believe that others are contemplated.

In future, any contracts must be in a form which complies with the provisions of the Truck Acts, as now interpreted by the House of Lords, and it is not proposed to amend those provisions ; but it appears to the Government to be necessary and proper to legislate for the purpose of preventing claims as regards the past which have no merits and would, if pursued, tend to disturb good relations between employers and employed. They accordingly propose to introduce at once a Bill to bar claims, under Section 4 of the Truck Act of 1831, for the payment in cash of remuneration which was, in fact, provided in the form of food or some other thing, in those cases in which it would have been legal to contract to pay a higher nominal money wage but to make deductions from that wage in respect of the food or other thing provided. The Bill will provide for the discharge of proceedings which have already been started, subject to such Order as to costs as the Court may think proper. Judgments given or settlements reached before April 18 will not be interfered with.

Sir G. Broadbridge : While thanking the right hon. Gentleman for his statement, might I ask what would be the position as regards any judgments that might be obtained after to-day and before the proposed Bill becomes law ?

Sir J. Anderson : I am considering this point with my legal advisers. It is not free from technical difficulties, but I should like to make it clear at once that a litigant or prospective litigant would have no legitimate grievance if, when the proposed Bill became law, he found that Parliament had decided to nullify the effect of the present law.

SCOTTISH NOTES

Income Tax—Test Case on Minister's allowance

An income tax case was decided on March 29 by the First Division of the Court of Session which is of general importance, especially to the ministers of the Church of Scotland, and was treated as a test case.

The parties to the case were the Commissioners of Inland Revenue and the Rev. R. W. Leckie, Edinburgh, and the question was whether the minister was assessable under Schedule E in sums representing Schedule A tax and the occupier's rates on the manse where he resided.

The Special Commissioners had decided that he was not, holding that the occupation of the manse was representative. There was a subordinate question, whether the minister was entitled to an allowance of a sum representing one-eighth of the gross annual value of the manse and one-eighth of the occupier's rates.

The Special Commissioners' decision on the main question was in favour of the minister and, on the subordinate question, was adverse to him.

The Lord President said that it was a term of the minister's appointment that the congregation were bound to provide a manse, and by the Act of the General Assembly passed on October 2, 1929, a minister was required to live in the manse if one was provided, and might not live elsewhere except with the consent of the presbytery. No such consent was given in this case, and the minister was accordingly required to live in the manse. Decision of the case turned on the question whether the minister was the occupier for the purposes of Schedule A. The Crown contended that the minister had the exclusive use of the manse during his incumbency and that he did not occupy it as representing anyone. The contention for the minister was that the manse was being used for the purpose of the Church of Scotland, or the congregation, and that the minister lived in it for the purpose of performing the duties he owed to the Church and congregation. In the present case the minister was bound to reside in the manse.

After fully discussing the facts, the Lord President said that he was of opinion that on the main question in the case the determination of the Special Commissioners was correct, and that the amount of Schedule A income tax paid in respect of the manse did not form part of the emoluments of the minister for the purposes of assessment to income tax under Schedule E. On the subordinate question also the Lord President considered the decision of the Commissioners was correct.

Lords Fleming and Carmont concurred. Lord Moncrieff, who dissented, said he failed to discover in an ordained minister's occupation of his manse any quality which distinguished him from an occupant as principal and not as agent.

SCOTTISH CHARTERED ACCOUNTANTS

It will afford pleasure to his friends in the accountancy profession that Mr. D. Norman Sloan, C.A., who was Secretary of the Institute of Accountants and Actuaries in Glasgow for 31 years, has recently been elected President of that Institute. He is succeeded in the Secretaryship by Mr. William L. Davidson, C.A.

Society of Incorporated Accountants

COUNCIL MEETING

FRIDAY, APRIL 5, 1940

PRESENT

Mr. Percy Toothill (President) in the chair, Mr. Richard A. Witty (Vice-President), Mr. F. J. Alban, Mr. C. P. Barrowcliff, Mr. R. Wilson Bartlett, Mr. R. M. Branson, Mr. J. Paterson Brodie, Mr. W. Norman Bubb, Mr. Henry J. Burgess, Mr. D. E. Campbell, Mr. Arthur Collins, Mr. E. Cassleton Elliott, Mr. M. J. Faulks, Mr. Alexander Hannah, Mr. Walter Holman, Sir Thomas Keens, Mr. Henry Morgan, Mr. C. Hewetson Nelson, Mr. Bertram Nelson, Mr. James Paterson, Mr. F. A. Prior, Mr. R. E. Starkie, Mr. Joseph Turner, Mr. Fred Woolley, Mr. A. A. Garrett (Secretary), and Mr. L. T. Little (Deputy Secretary).

Apologies for non-attendance were received from Mr. A. Stuart Allen, Mr. W. Allison Davies, Mr. R. T. Dunlop, Mr. Edmund Lund, Mr. A. H. Walkey and Mr. R. T. Warwick.

COUNCIL

The President received an intimation from Mr. Henry J. Burgess that having retired from public practice, he felt it necessary to resign his seat on the Council. Mr. Arthur Collins advised the President that he did not seek re-election to the Council at the next Annual General Meeting. The Council received these intimations with much regret and expressed their sincere thanks to Mr. Burgess and to Mr. Collins for the long and valuable services they had rendered to the Society both during the time they had been members of the Council and previously. The President congratulated Mr. Burgess upon his recent election as Chairman of the Rates and Finance Committee of the Corporation of London.

EXAMINATIONS, 1939 : AWARD OF GOLD AND SILVER MEDALS

The Council awarded the Gold Medal for 1939 to Mr. Gordon Alec James Morris, London, who obtained 1st Certificate of Merit in the December Final Examination, and the Silver Medal to Mr. Frederick Stephen Adams, Maidstone, who obtained 1st Certificate of Merit in May, 1939.

EXAMINATIONS, JULY/AUGUST, 1940

The Council confirmed that the Examinations would be held on July 31 and August 1 and 2, 1940, at Taunton School, Somerset, Sedbergh School, Yorks, and the usual Centres in Scotland, Ireland and South Africa.

ACCOUNTANCY AS A RESERVED OCCUPATION

Mr. Walter Holman made a report of the decision received from the Ministry of Labour as follows :—

Reserved at 25 : (a) Accountant (including a Cost and Works Accountant) with recognised professional qualifications ; (b) Audit Assistant with ten years' experience of accountancy work in a practising accountant's office.

SOUTH AFRICAN MATTERS

The Council received reports of the proceedings of the South African Branches, and particularly that the South African (Western) Branch, Cape Town, had been good enough to contribute a sum of 20 guineas, and the South African (Northern) Branch, Johannesburg, the sum of 25 guineas to the Incorporated Accountants' Benevolent Fund.

RESIGNATIONS

The following resignations were accepted with regret as from December 31, 1939 :—

BORTON, JOHN MONTGOMERY (*Associate*), Cape Town.
CLARK, FREDERICK WILLIAM STOCK (*Associate*), London.
FINDLAY, PETER BYRES (*Fellow*), Cape Town.
GLOVER, EVELYN (*Fellow*), Pretoria.
JAMIESON, EDMUND CHARLES (*Fellow*), Johannesburg.

DEATHS

The Secretary reported with regret the death of each of the following members :—

AIYAR, KALYAN SUBRAMANI (*Fellow*), Bombay.
ELLIS, WILLIAM SENIOR (*Associate*), London.
HANDFORD, GEORGE HENDY (*Fellow*), Manchester.
HORSFIELD, HENRY ATKINSON (*Fellow*), Bradford.
HUGHES, WILLIAM HENRY (*Associate*), Birmingham.
ISAAC, HENRY (*Associate*), London.
ODDIE, WILLIAM MUIR (*Fellow*), Horbury, Yorks.
REYNOLDS, JAMES WILLIAM (*Fellow*), Bradford.
TOMLINSON, LESLIE ARTHUR (*Fellow*), Nottingham.
VINDEN, ERNEST VICTOR (*Associate*), London.
WARNES, WALTER SCOTT (*Fellow*), Manchester.

The fifty-fifth annual general meeting of the Society will be held on Thursday, May 23, at 2.30 p.m. at Incorporated Accountants Hall, Embankment, London, W.C.2 (near the Temple Station).

Members are asked to be present to support the President.

DISTRICT SOCIETIES

CARDIFF STUDENTS

At a special meeting of the Cardiff Students, on April 10, it was resolved "That the activities of the Cardiff Students' Society be suspended for the duration of hostilities, and that during that period the management be vested in the present Officers : Mr. Vernon G. Fradd (Chairman), Mr. W. E. Thomas (Vice-Chairman) and Mr. J. Alun Evans (Hon. Secretary).

LIVERPOOL

Mr. Ramsay Muir was a guest of the Incorporated Accountants' District Society of Liverpool at a meeting held on April 2. He spoke on "Some Economic Problems of the Post-War World," suggesting that the end of the war would see a continent of overburdened and impoverished nations. The reconstruction of Germany would be one of the great problems, because Germany would remain one of the pivotal States of Europe.

The position in this country would have to be met by taxation and borrowing. Attempts might be made to reduce the burden of the internal debt by, it was hoped, a controlled inflation, and there would be serious discussion of a graduated capital levy. There would also

be immense unemployment in the capital industries. He was convinced, however, that it would be possible not only to bear the colossal burden, but to increase our prosperity.

This would be possible only through the re-establishment of the free movement of trade with other countries; through the reorganisation of our industrial order so as to produce contentment and keenness, and to break down opposition to labour-saving devices; and finally through a courageous endeavour at national reconstruction.

A Members' Dinner was afterwards held at the Constitutional Club, with Mr. Ernest Chetter (President of the Liverpool District Society) in the chair. The guests included Mr. Ramsay Muir, Dr. Theodore Brown, Mr. John Coatman (North Regional Director of the B.B.C.), Alderman Denton, Mr. Stanley Dumbell (Registrar of the University, Liverpool), Mr. C. S. Gibbons (Midland Bank), Mr. A. Bryce Muir, Mr. Gerald Papworth (Chief Accountant of Martins Bank, Ltd.), Mr. G. J. Swanwick (Westminster Bank) and Alderman Edwin Thompson.

CHAMBERS OF COMMERCE

Sir Ronald Matthews has been elected President of the Association of British Chambers of Commerce in succession to Sir Granville Gibson and Mr. Henry Morgan, F.S.A.A., has been elected Deputy President.

Mr. Wilfred Harcourt Fox, F.S.A.A., has recently been elected President of the Northampton and County Chamber of Commerce.

PERSONAL NOTES

Mr. R. Attiwell, formerly practising under the style of Messrs. Lloyd, Attiwell & Co., Exchange Buildings, Stephenson Place, Birmingham, has taken Mr. A. F. Dawes into partnership. The practice will, for the future, be conducted under the style of Attiwell & Co., Incorporated Accountants, at the same address.

Messrs. Ashmole, Edwards & Goskar announce that the partnership hitherto existing has been dissolved by mutual consent, owing to the retirement of Mr. W. H. Ashmole, F.S.A.A. The business will be continued at Cornhill Chambers, Christina Street, Swansea, under the same firm name by Mr. Henry Edwards, F.S.A.A., Mr. A. E. Goskar, F.S.A.A., and Mr. John Webster, A.C.A., A.S.A.A., who has now been taken into partnership.

Messrs. Wm. H. Jack & Co., Incorporated Accountants, of 25-26, Hanover Square, London, W.1, have taken into partnership Mr. G. W. A. Gray, A.S.A.A., and Mr. J. W. Wishart, A.S.A.A., who have been associated with the firm for many years. The style of the firm will remain unchanged.

Mr. H. Smith, Incorporated Accountant, has been appointed Borough Treasurer of Camberwell.

Messrs. B. de V. Hardcastle, Burton & Co., Incorporated Accountants, Coventry House, South Place, E.C.2, announce that they have admitted into partnership Mr. A. F. Palmer, A.S.A.A., and Mr. R. N. Russell, A.S.A.A., who have been associated with them for many years. The name of the firm will remain unchanged.

BOOKS FOR H.M. FORCES

For men and women on active service in H.M. Forces a supply of books and periodicals is of inestimable value. The need is being met by the Service Libraries and Books Fund, under the chairmanship of the Right Hon. the Lord Mayor of London. The Hon. Treasurer and Hon. Secretary are respectively Mr. Cyril Gamon, M.V.O., and Mr. Humphrey Lloyd, M.A., The Mansion House, London, E.C.4. Books and periodicals and money to buy books will be gladly received at the central office for reception and distribution, which has been established at the City of London Territorial Army and Air Force Association, Finsbury Barracks, City Road, E.C.1, and Incorporated Accountants who can spare any suitable literature are asked to send it to that address.

OBITUARY

HENRY ATKINSON HORSFIELD

We have learned with regret that Mr. H. A. Horsfield, F.S.A.A., a partner in Messrs. Auker, Horsfield and Longbottom, Incorporated Accountants, Bradford, died on March 31, at the age of 62. Mr. Horsfield became a member of the Society of Incorporated Accountants in 1907, and a Fellow in 1921. He was a member of the Committee of the Incorporated Accountants' Bradford and District Society for over twenty years, and was President for the year 1927-28. Although of a somewhat retiring disposition, he was well known in Bradford and deeply interested in the welfare of the Society. He was a trustee of the Bradford Friendly Society Investment Association.

RICHARD HENRY EDWARDS

We regret to announce that Mr. R. H. Edwards, F.S.A.A., died on April 13. Mr. Edwards became a member of the Society of Incorporated Accountants in 1918 and in 1925 was admitted to partnership by his employer in the firm of Joseph Carr, McCracken & Co. At the time of his death he was senior partner in the firm. He was a member of the Committee of the Incorporated Accountants' Newcastle-upon-Tyne and District Society.

Mr. Edwards was Chairman of the Robert Arthur Theatres Co., Ltd., and secretary of the Theatre Royal (Newcastle-upon-Tyne), Ltd., and of the Northern Conservative Club.

THE SOCIETY'S EXAMINATIONS

Candidates are reminded that the next examination will be held on July 31 and August 1 and 2, 1940 at Taunton School, Sedbergh School, Glasgow, Dublin and Belfast. Applications must reach Incorporated Accountants' Hall not later than May 21 next. Full particulars will be furnished on application. The examinations will also be held at centres in South Africa.

REMOVALS

Mr. R. A. Patel advises that he is now practising under the style of R. A. Patel & Co., at The Imperial Bank Building, Fort, Colombo.

Messrs. S. Primost & Co., Incorporated Accountants, have removed their offices to 34, London Wall, London, E.C.